Our worldwide competitiveness will continue to be supported by relentless dedication to productivity improvement and cost reduction.

ANNUAL REPORT 1989

Message to Shareholders

Nineteen eighty-nine was another truly remarkable year for your company. Record nickel and copper prices, together with record worldwide nickel demand, enabled Inco to earn an all-time high of $753 million, or $7.11 per common share.

This performance followed an equally impressive year in 1988, when prices of nickel and many other base metals surged in response to tight supplies and strong demand. With its low-cost production capability and its worldwide leadership in marketing and customer service, Inco was well positioned to benefit from the robust market conditions of the past two years.

Two Years of Record Performance

Taken together, 1988 and 1989 represent a period of unprecedented prosperity for the Company, its shareholders and its employees. Relative to the two years combined, Inco:

- earned a total of $1.5 billion, more than $14 a share;
- paid cash dividends of $1.2 billion, or $11.55 per common share, to its stockholders;
- provided for bonus and incentive payments to employees amounting to $133 million;
- issued nearly 900,000 Inco common shares to employees;
- delivered more than one billion pounds of nickel – 35 per cent of free world demand;
- more than doubled its annual net sales to $3.9 billion in 1989 from $1.8 billion in 1987;
- launched a $414 million program to achieve major additional reductions in sulphur dioxide emissions at its Sudbury, Ontario operations; and
- improved its debt:equity ratio to 42:58 at year-end 1989 from a peak of 62:38 in January 1989 following the recapitalization and payment of a special $10 per share dividend to shareholders.

Strategies for Growth

While results for the past two years were exceptional by any measure, we have not lost sight of the fact that the nickel market is cyclical. Consequently, in 1989 we undertook a far-reaching study of the industry and Inco's position within it. Our goal was to determine an appropriate business strategy to assure Inco's growth and financial well-being over the longer term.

We found that demand is likely to remain high and increase over time, albeit still subject to cyclical swings, and that favourable growth opportunities will exist for Inco. We therefore arrived at the fundamental decision to stick to what we know best – mining and metals – and do all that we can to realize the full potential of Inco's core businesses.

First, we will invest substantially in our mines and processing facilities to maintain our strong position in nickel as a low-cost producer, with market share of about one-third of free world demand.

We will seek to generate improved and consistent earnings from our nickel alloys and engineered products businesses by investing to modernize facilities and by developing new high value-added products, thereby enhancing their worldwide market position.

We will continue to build a profitable gold company and will, when appropriate, consider selling an interest in that company in order to realize value for Inco and its shareholders.

We will continue programs to identify and seek out minerals and other related profitable business opportunities where we can apply our technology and production and market development skills.

We will maintain a strong commitment to employee safety, with continued emphasis on fail-safing all aspects of our operations.

We will seek to balance opportunities for growth with good stewardship in the protection of human health and the natural environment.

And we will directly enhance shareholder value through a balanced mix of cash dividends, share repurchases and other appropriate actions.

As a result of these strategies, we expect Inco to continue to be what it is today – the world's largest and most efficient producer of nickel. At the same time, we believe our alloys and engineered products operations and our gold operations will grow and be consistently profitable.

Focus on Productivity

Although 1989 was an excellent year for Inco, we experienced substantial unit cost increases in the production of our primary metals. We have therefore intensified our efforts to

improve productivity. Beginning in 1991, we expect to resume the long-term trend of productivity improvement through the start-up of higher ore grade mines now under development and continued investments in more efficient equipment and technology.

Inco Employees

Our strategic plan recognizes that Inco's success derives from the collective efforts of employees. I wish to thank all our employees worldwide for their continued dedication and support. Our continuing philosophy is to align the interests of employees as closely as possible with those of shareholders. Employees participate in profit-sharing or bonus arrangements that link a portion of their compensation to financial performance or the price of nickel. Additionally, a total of nearly 900,000 Inco common shares was issued to employees in early 1989 and early 1990 through an Employee Share Award Plan, with individual awards based on years of service. Further awards are planned to be made in 1991, subject to the attainment of satisfactory profitability targets.

Dividend Payments and Stock Repurchases

In October, the Board of Directors increased the quarterly dividend rate by five cents a share to 25 cents, beginning with the December 1, 1989 payment.

During the year, we acquired 1.85 million Inco common shares under a repurchase plan announced in April. That program was superseded in October 1989 when we announced a five million common share repurchase program which continues in 1990. The rate of repurchase will be dependent on general market conditions.

Outlook

Demand for nickel weakened somewhat in the second half of 1989, and nickel prices receded from the peak levels of early 1989. As of mid-February 1990, the three-month nickel price on the London Metal Exchange was $3.13 per pound, compared with an average of $5.82 per pound for all of 1989. Consequently, while we expect Inco to continue to be profitable in 1990, earnings will not match the record high of 1989 should lower nickel price realizations prevail.

Longer term, the fundamentals of the nickel industry remain favourable. Little additional nickel production capacity is coming on stream despite an extended period of high demand. Sustained nickel prices of $5 per pound or more would be required to justify the huge expenditure necessary for a "greenfield" nickel project. Until such a price is assured, we believe that few producers or investors will be prepared to take that risk. On the demand side, long-term growth in nickel consumption will continue to be driven by increased stainless steel production and the use of high-performance nickel alloys in aerospace, process industries, oil and gas production, and other demanding applications.

Inco enters 1990 well positioned to meet the challenges and to take advantage of the opportunities that lie ahead. Our strategic plan gives us direction. A solid foundation is in place on which to build for the future.

Donald J. Phillips

Donald J. Phillips
Chairman, President and
Chief Executive Officer
February 14, 1990

Nickel Prices

$ per pound

Inco's average net realized price including intermediates

London Metal Exchange 3-month nickel price

Additional large flotation cells at the Clarabelle Mill in Ontario will increase capacity and save energy. To the right of the bank of tanks is Howard Ryan, mill operator.

PRIMARY METALS

We will invest substantially in our mines and processing facilities to reinforce our strong position as a low-cost producer of nickel, with approximately a one-third share of free market demand.

Inco's primary metals operations had another excellent year in 1989, benefitting from a continued boom in world nickel markets. Growth in nickel demand and prices over the past two years has been driven by strong demand from stainless steel producers. The stainless steel industry consumed more than 60 per cent of all nickel produced and about 40 per cent of Inco's production.

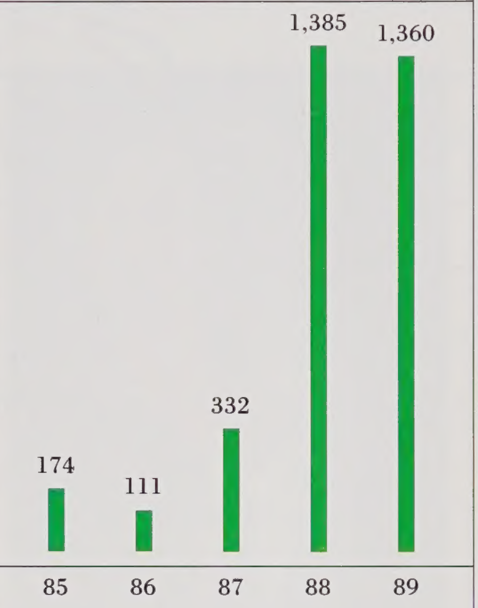
During 1989, Inco:

- realized record average prices for both nickel and copper;
- achieved operating earnings in primary metals of $1,360 million;
- delivered more nickel to customers than in any year since 1974;
- broadened the use of innovative marketing approaches to foster more stable long-term demand for its products;
- continued a major program to develop new mines, aimed at improving safety and productivity while sustaining and increasing nickel production capacity to meet customer needs;
- moved ahead strongly with an important initiative to reduce sulphur dioxide emissions at its Sudbury, Ontario operations;
- further expanded its research programs, particularly those related to the development of proprietary value-added nickel products and the treatment of nickel lateritic ores; and
- increased its exploration programs for base and precious metals.

Inco's strategy in primary metals is to continue its strong position as a low-cost producer and maintain a nickel market share of approximately one-third as demand grows over time. To further this strategy, the

Operating Earnings

$ in millions



$ millions	**1989**	1988	1987
Sales by product			
Primary nickel	**$2,674**	$2,202	$ 967
Refined copper	**338**	283	199
Precious metals	**148**	146	144
Cobalt	**23**	24	22
Other products	**35**	31	26
Net sales to customers	**$3,218**	$2,686	$1,358
Operating earnings	**$1,360**	$1,385	$ 332
Deliveries (in thousands)			
Primary nickel, including intermediates(1)	**476,420**	457,920	444,630
Nickel contained in alloys and engineered products	**37,340**	36,870	32,420
Total nickel (pounds)	**513,760**	494,790	477,050
Copper (pounds)(2)	**278,130**	255,840	274,860
Platinum (troy ounces)(3)	**129**	132	120
Palladium (troy ounces)(3)	**169**	149	162
Rhodium (troy ounces)(3)	**12**	18	16
Gold (troy ounces)(3)	**79**	52	49
Silver (troy ounces)(3)	**1,470**	1,570	1,550
Cobalt (pounds)(2)	**3,210**	3,490	3,450
Sulphuric acid and liquid sulphur dioxide (tonnes)	**508**	523	515

(1) Includes 83 million pounds in 1989, 40 million pounds in 1988 and 18 million pounds in 1987 purchased on the London Metal Exchange.
(2) Includes metals contained in alloys and engineered products.
(3) Excludes toll refined materials.

Nickel Prices

$ per pound

Inco's average net realized price including intermediates

London Metal Exchange 3-month nickel price

Free World Nickel Demand

lbs. in millions

Inco deliveries

*provisional estimate

Company is investing heavily in new technology, new mines and the modernization and expansion of surface facilities. Primary metals capital expenditures were $341 million in 1989, up from $198 million in 1988.

Financial and Operating Results

Primary metals operating earnings of $1,360 million were down from a record $1,385 million in 1988, as higher costs and expenses more than offset increased prices and deliveries. Sales rose 20 per cent to a record $3,218 million. Sales and cost of sales reflect deliveries of nickel purchased on the London Metal Exchange (LME).

As 1989 began, nickel prices were near an all-time high, reflecting continued strong demand in excess of supply. As the year progressed, demand weakened and prices declined.

Free world nickel demand established a new record for the third consecutive year, increasing to an estimated 1,440 million pounds in 1989. Supply, estimated at 1,460 million pounds, met demand for the first time since 1986. The three-month nickel price on the LME opened the year at $7.78 per pound, peaked at $8.50 in February and then moved progressively lower, ending the year at $3.63. The average three-month LME price in 1989 was $5.82 per pound, up from $5.59 in 1988.

Inco's average realized price for primary nickel, including intermediates, was a record $5.61 per pound, up from $4.81 in 1988. This increase reflected the impact of high prices early in the year as well as the fact that changes in Inco's realized prices tend, because of contractual sales arrangements, to lag changes in prices on the LME. In the first quarter, Inco's average realized price was $6.59 per pound, declining to $5.97 per pound in the second quarter, $5.28 in the third and $4.64 in the fourth.

Responding to record demand, Inco delivered 514 million pounds of nickel, including 83 million pounds purchased on the LME. Deliveries in 1988 were 495 million pounds, including 40 million pounds purchased on the LME. Inco's share of free market nickel demand was an estimated 36 per cent in 1989, up from 35 per cent in 1988.

The Company's sales are broadly diversified in terms of types of customers as well as geographic regions. Of its 1989 total primary nickel deliveries, 31 per cent was to customers in Europe, 23 per cent to the United States, 23 per cent to Japan and 23 per cent to other countries.

Programs to Generate More Consistent Long-Term Demand

The Company continued to implement innovative marketing strategies aimed at assuring more consistent long-term demand for its products. At year end, Inco had fixed-volume contracts with customers in the stainless steel industry for the sale of more than 150 million pounds of nickel annually. These contracts diminish the impact of rising and declining nickel prices; most have a duration of three years. The Company also has contracts with customers outside the stainless steel industry for more than 100 million pounds of nickel annually.

In addition, Inco has firm markets for more than 100 million pounds of nickel annually through its alloys and engineered products operations, through sales to refineries in the Pacific Rim in which it holds equity interests and through sales of proprietary nickel powders.

These various arrangements provide an outlet for more than 80 per cent of Inco's current nickel production capacity.

Inco Specialty Powder Products
The Company continued to strengthen its position in the development and sale of nickel powders for use in powder metallurgy, catalysts, electronics, batteries and other applications. The first commercial sales were made in 1989 of new ultra-fine and high-porosity battery powders. Sales of Novamet* nickel flakes and powders, used to manufacture special paints and pigments for electronics applications, increased for the second consecutive year.

Research and Development
Primary metals research and development expenditures were $32 million, up from $26 million in 1988 and nearly double the level of research spending in the mid-1980s.

Inco is increasing its research effort directed to the development of new value-added products, including nickel powders and advanced materials such as nickel-coated particles and fibers. In support of this effort, the Company plans a $10 million expansion of its J. Roy Gordon Research Laboratory in Ontario. The expansion will also permit an increase in research programs related to the development of new nickel plating processes. As well, research into new economical methods of extracting nickel from lateritic ores from Indonesia and other parts of the world has been renewed and is escalating.

Inco also maintains research programs aimed at improving safety and productivity, increasing metals recoveries, enhancing workplace conditions and protecting the natural environment at its primary production facilities in Canada, the U.K. and Indonesia.

Copper, Precious Metals and Cobalt
Of the Company's total primary metals revenues in 1989, 17 per cent was obtained from products other than nickel. The Company derives these products primarily from its Ontario ores.

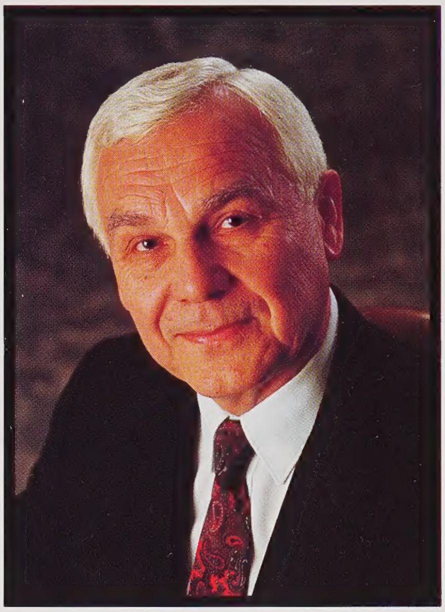
Revenues from copper rose to a record $338 million, as the average price realization increased to $1.22 per pound from $1.12 in 1988. Deliveries were 278 million pounds, up from 256 million in 1988. The Company's copper is sold to industrial users in North America and Europe.

Revenues from platinum-group metals totalled $109 million. Average price realizations were $513 per troy ounce for platinum, down from $534 in 1988; $1,308 per troy ounce for rhodium, up from $1,227; and $146 per troy ounce for palladium, up from $126.

Inco produces gold as a by-product of its Canadian ores as well as from mines managed by Inco Gold Inc. The Company's average realized price for gold declined to $394 per troy ounce in 1989 from $435 in 1988. (See page 13 for a discussion of the activities of Inco Gold.)

The average realized cobalt price was $7.93 per pound in 1989, up from $7.36 in 1988.

Operations at the Tiebaghi chromite mining facility in New Caledonia were suspended in early 1990 after eight years of production. Exploration programs continue to be directed at identifying additional reserves. Inco holds a 55 per cent interest in the project.



Executive Vice-President Walter Curlook is responsible for Inco's primary metals production, exploration and mineral resource development and technology.

*Trademark of the Inco family of companies.

At Thompson, Manitoba dredging and development continue at the Thompson Open Pit South towards initial production in 1990.

Expanding Production to Meet Customer Needs

Inco has maintained its nickel production for the past three years at the highest levels since the mid-1970s:

(millions of pounds)	**1989**	1988	1987
Nickel	**427**	434	430
Copper	**270**	257	261

During this period, the Company has produced at capacity and has sold virtually every pound of nickel produced. Finished nickel inventories were 51 million pounds at the end of 1989, up from the 1988 year-end total of 46 million pounds, which was a 20-year low.

Inco has been able to achieve higher production levels primarily by capitalizing on the flexibility of the Thompson Open Pit North in Manitoba. Opened in 1986 and originally expected to operate at some 35 million pounds of nickel in ore annually for nine to ten years, the Open Pit North has, in fact, produced over 265 million pounds of nickel in product during the past four years to satisfy strong demand. It will now be depleted in 1990.

Inco plans to produce some 400 million pounds of nickel in 1990, down six per cent from 1989, in light of weaker market conditions.

New Generation of Mines

Beginning in 1991 or 1992, Inco's production capacity is expected to reach about 450 million pounds annually as new mines are brought on stream in Canada and production is expanded in Indonesia.

These mines will utilize the most modern technologies, contributing significantly to improvements in safety and productivity. For instance, McCreedy East will only employ bulk mining techniques, will be electrified, and will make use of the most advanced ore handling and transportation equipment. Because of its size, the high grade of its ore and the application of the latest mining technology, McCreedy East is expected to be the most productive mine in the Sudbury Basin.

Mine development projects completed in 1989 or currently under way include:

	Development begun	Initial production	Anticipated peak annual production of recoverable metal	Estimated years of production
Ontario Division				
Crean Hill reactivation	1986	1987	20 million pounds nickel 18 million pounds copper	10
Shebandowan reactivation	1988	1989	23 million pounds nickel 11 million pounds copper	3
Lower Coleman	1988	1990	18 million pounds nickel 14 million pounds copper	10
McCreedy East	1989	1993	42 million pounds nickel 22 million pounds copper	19
Manitoba Division				
Thompson 1-C orebody	1987	1989	25 million pounds nickel	15
Thompson Open Pit South	1988	1990	30 million pounds nickel	5
Birchtree reactivation	1988	1989	25 million pounds nickel	27

At Lower Coleman Mine, 50 kilometres from Sudbury, a twin-boom jumbo drill works on a 24-hour per day schedule to develop this new underground mining operation. Initial production will begin in 1990. The operation will utilize the latest in mining technology and fail-safe procedures.

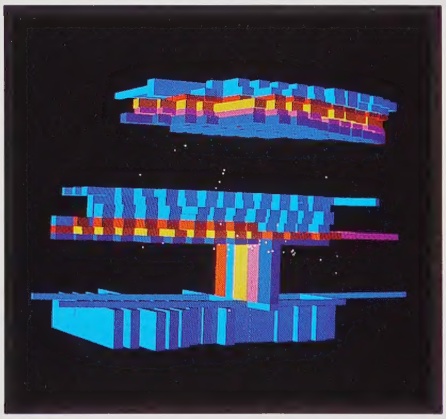
The newly-established Mines Engineering Dept. at Lower Coleman Mine utilizes computer modelling techniques for mine layout planning. Clockwise from the bottom: John Kiernan, Steve Townend, Bob Gustas (standing), Greg Greenough and Tom Christiansen.

Investing in New Technology

Inco continues to invest in new mining technology and the modernization of its milling, smelting and refining facilities.

Increased use of computers for mine modelling and design is contributing to the design of safer, more productive mining operations. The Company is also focusing on the automation of ore transportation from mines to processing facilities. At Thompson, a computer-operated electric tramming system is under construction for underground ore haulage. Scheduled to begin operation in 1991, it will be safer and more environmentally sound than the current diesel tram, while tripling transportation productivity.

In 1989, Inco continued on schedule with the rebuilding and modernization of its Sudbury smelter, with the principal objective of reducing sulphur dioxide emissions. While this project will yield only a modest return on investment, it will provide a 20 per cent increase in smelting productivity, improve workplace conditions and give Inco a state-of-the-art facility to meet its smelting needs well into the next century.



The increased use of computer modelling techniques is contributing to the design of safer and more productive mining operations.

Productivity and Costs

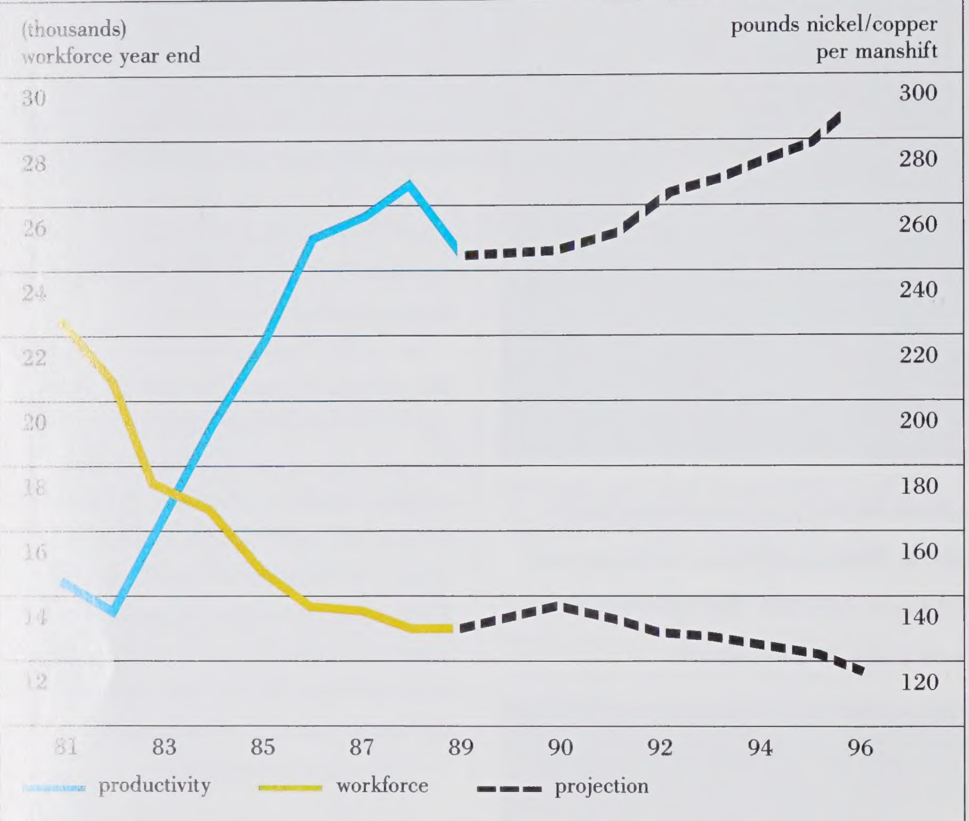
Following the dramatic improvement achieved throughout most of the 1980s, productivity – as measured in pounds of nickel plus copper produced per manshift – declined eight per cent in 1989. The unit production cost of nickel and copper increased 24 per cent over 1988.

The decline in productivity was due, in part, to processing problems and production limitations associated with the higher arsenic content of ore mined from the last benches at the Thompson Open Pit North. It also reflected a lower average grade of nickel in ore mined in Manitoba, primarily as a result of the phasing down of the Open Pit North. In addition, in Ontario, it reflected higher tonnages from lower grade mines as well as the unavailability of tonnages from high grade mines such as the Garson Mine, which was temporarily closed in 1986 pending the development of a new and safe mining plan.

Additional factors affecting unit production costs included increased employment expenses related to collective bargaining agreements and the increased value of the Canadian dollar relative to the U.S. dollar.

Although unit production costs are expected to increase modestly in 1990, they will still be at about the same level as 1982. Inco anticipates that in subsequent years productivity will improve and unit costs will benefit as new mines and modernized milling and smelting facilities are brought into full production.

Productivity



Indexed Unit Nickel Production Costs*

*excludes costs of nickel price bonuses and profit-sharing arrangements

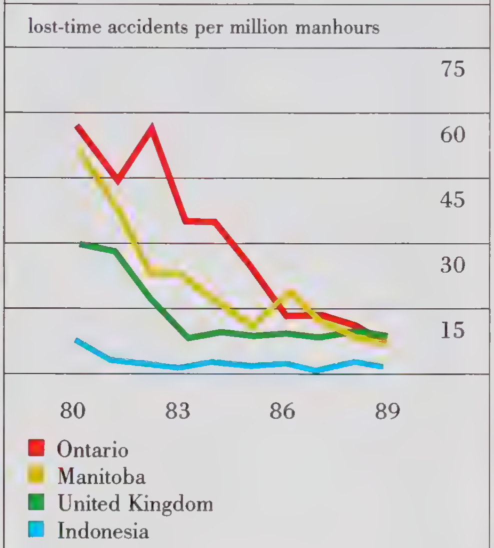
Indonesia

Operating earnings of Inco's Indonesian operations rose 23 per cent in 1989 to a record $252 million, primarily reflecting increased product prices. Production was 64 million pounds of nickel in matte, up slightly from the year-earlier level, despite production interruptions to permit construction of new facilities. Capacity is being expanded by some 30 per cent to a nominal 105 million pounds of nickel in matte annually in response to increased demand for this intermediate product. The new capacity is scheduled to come on stream in late 1990. Essentially all the new output is destined for the Japanese market.

Inco is exploring the possible sale of up to a 20 per cent equity interest in P.T. International Nickel Indonesia (P.T. Inco) through a public offering on the Indonesian stock exchanges. Such an offering would be in keeping with the Contract of Work, which calls for equity offerings to Indonesians. Assuming sale of the entire

At P.T. International Nickel Indonesia, production capacity is being expanded in response to increased demand. The plant expansion is scheduled to come on stream in late 1990. Essentially all of the new output is destined for the Japanese market.

Safety



20 per cent, Inco's ownership of P.T. Inco would drop from 78 per cent to 58 per cent. Sumitomo Metal Mining Co., Ltd. owns slightly more than 20 per cent of P.T. Inco.

Employee Relations

The Company negotiated new one-year collective agreements with hourly production employees at Clydach, Wales and process employees at Acton, England. In December, a new two-year agreement was reached with employees at P.T. Inco.

Collective agreements remain in effect with unionized employees in the Manitoba Division through September 15, 1990 and with unionized employees in Sudbury and Port Colborne, Ontario through May 31, 1991.

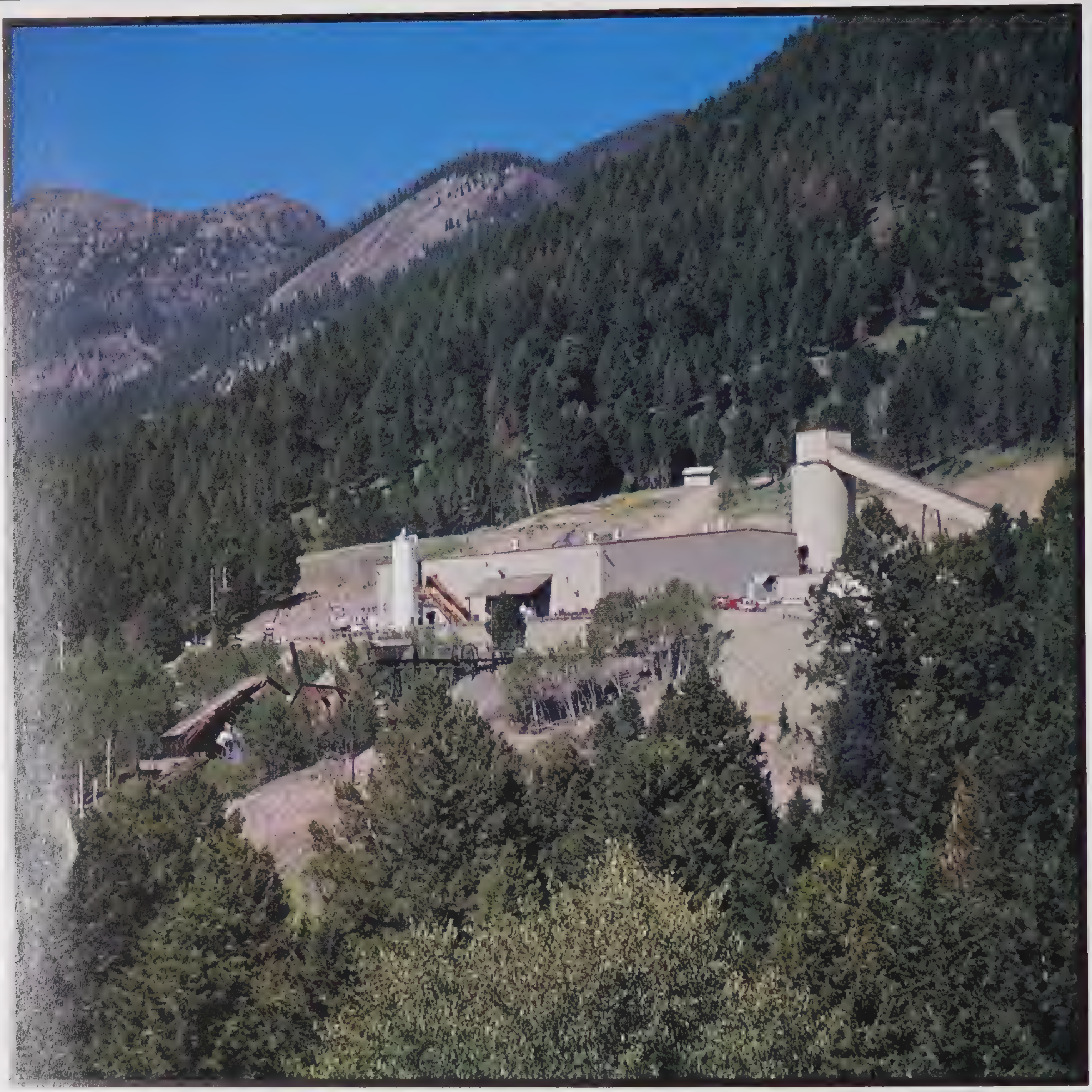
Nickel/Copper Ore Reserves

At year end, Inco's proven and probable nickel/copper ore reserves in Canada were 421 million short tons, containing 6.1 million tons of nickel and 3.7 million tons of copper. This compares with year-earlier proven and probable reserves of 434 million short tons, containing 6.2 million tons of nickel and 3.8 million tons of copper. Only material that is economically viable and has been sampled in sufficient detail to permit a reliable calculation is included in reserves. Significant quantities of platinum-group metals, silver and gold are also contained in the Canadian ore reserves. (See also Worldwide Exploration and Gold on page 13 of this Report.)

Proven and probable ore reserves at P.T. International Nickel Indonesia at year end were 85 million short tons containing 1.6 million tons of nickel.

Safety

Safety is a priority of management, employees, unions, the mining industry and government agencies. Safety performance, as measured by lost-time accidents, continued to improve in 1989. There were no fatalities in the workplace of permanent payroll employees during the year. While the Company is gratified by this performance, it is deeply concerned about the accidental deaths of four employees of contractors working on Inco projects in Canada and one in Indonesia. In addition to reinforcing its own efforts, Inco is determined to work even harder to assure that contractors abide by standards which meet the Company's strict safety codes.



At Mineral Hill Mine in Montana, the mine and mill are designed for the production and treatment of 150,000 tons of ore yielding 42,000 ounces of gold annually.

Worldwide Exploration and Gold

Inco's objective is to continue to build a profitable gold company by the mid-1990s.

Inco's worldwide exploration effort and its gold operations were reorganized in 1989 through the formation of Inco Exploration and Technical Services Inc. (IETS) and Inco Gold Inc. This reorganization was made in support of the Company's strategies to strengthen its core businesses, build a substantial and profitable gold company, and expand its exploration efforts related to nickel, copper, precious metals and related minerals.

Exploration and Mine Development

Inco's total exploration expenditures were $56 million in 1989, up from $43 million in 1988.

IETS was organized in August 1989 with responsibility for Inco's worldwide exploration and mine development activities. At year end, IETS was active in more than 100 precious metals, chrome and base metals ventures and prospects in Canada, the United States, Brazil, France, Indonesia, New Caledonia, Botswana and Papua New Guinea. Included is a joint venture agreement signed in November by Inco and Molopo Australia Limited to explore Molopo's platinum concessions in the Republic of Botswana. Inco can earn a 60 per cent interest in the project by spending $3.8 million.

The Ontario and Manitoba Divisions and P.T. Inco retain responsibility for mine exploration and development to support existing operations. The major objective of these programs is to delineate and develop sufficient nickel reserves to satisfy production plans for up to 40 years.

During 1989, the Company continued to conduct airborne surveys of the Thompson Nickel Belt in Manitoba, using the most modern equipment and latest technology to obtain better information and probe deeper than ever before. Exploration was also expanded in the Sudbury area, emphasizing targets with potentially high platinum-group metal content.

Technical Services

IETS also assumed responsibility from INCO TECH for the sale of proprietary technology related to processing and refining. Ten additional licensing agreements were signed during 1989 for Inco's environmentally superior process to destroy cyanide in effluents, raising to 25 the total number of such agreements now in effect with gold producers and platers in Canada and the United States.

Inco Exploration and Technical Services is continuing exploration of the Thompson Nickel Belt in Manitoba to depths up to 2,000 feet. Exploration drilling is also under way underground at Thompson Mine.

[illegible] Exploration and Technical Services continues to sell licensing agreements for Inco's environmentally superior [illegible] to destroy cyanide effluents. The process is now used by 25 gold producers and platers in North America. [illegible] at J. Roy Gordon Research Laboratory in Ontario, Branka Tandi, process specialist, conducts preliminary [illegible] for licencees.

During the year, Claudio Barsotti (left) was appointed President of the newly-formed Inco Exploration and Technical Services Inc. (IETS). IETS brings together, under one organization, Inco's worldwide exploration and mine development engineering expertise, plus the sale and service of proprietary technology. Martin H. Robinson was appointed President of Inco Gold Inc. Inco Gold is responsible for managing Inco's interests in gold producing properties.

Inco Gold

Inco Gold Inc. is responsible for managing Inco's interests in gold producing properties. These include interests in Les Mines Casa Berardi in northwestern Quebec, Mineral Hill in Montana, U.S.A., and Crixas in the state of Goias, Brazil.

At Casa Berardi, initial gold production from the Est Mine commenced in September 1988. In 1989, the first full year of production, Inco's share of gold output reached 33,000 ounces. A second mine, Casa Berardi Ouest, is under development by IETS and is expected to commence production in the second quarter of 1990. Projected capital cost is $23 million. The Ouest Mine is designed to produce at a rate of approximately 40,000 ounces of gold annually, with Inco's share being 24,000 ounces. Inco holds a 60 per cent joint venture interest in Les Mines Casa Berardi, and Inco Gold is the operator.

Gold production at the Mineral Hill Mine officially commenced in September 1989. The mine and mill are designed for the annual production and treatment of 150,000 tons of ore yielding 42,000 ounces of gold per year, of which Inco's share is 21,000 ounces. Exploration is under way on 19 square miles surrounding the mine to delineate additional reserves that would extend the mine life, which is currently estimated to be at least eight years. Inco holds a 50 per cent joint venture interest in Mineral Hill and is the operator.

The initial pour of bullion at the Crixas gold project in Brazil was made in November 1989 and the project became operational in January 1990. The mine and mill are designed to process approximately 400,000 tons of ore to yield 120,000 ounces of gold per year at full production. Inco holds a 50 per cent equity interest in Crixas through its Brazilian subsidiaries.

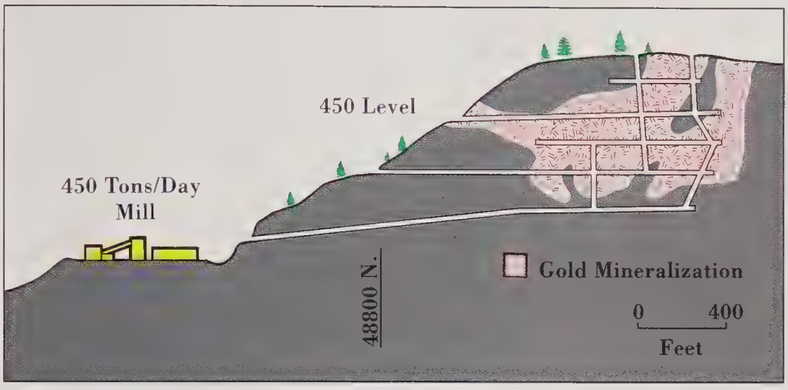
Cash production costs at these three mines are expected to average approximately $200 per ounce of gold.

Inco's share of gold production, including Crixas, was 41,000 ounces in 1989 and is expected to increase to some 114,000 ounces in 1990. These figures do not include gold produced as a by-product of Inco's Canadian nickel/copper ores, totalling 42,400 ounces in 1989.

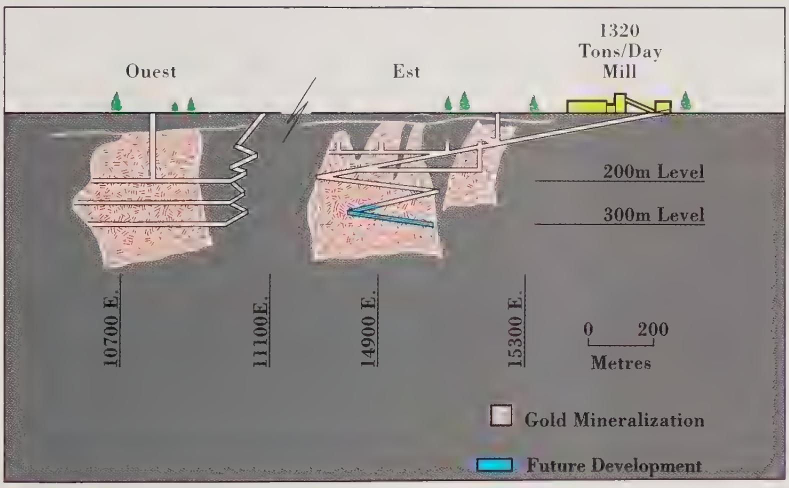
Inco's target continues to be the production of more than 400,000 ounces of gold annually by the mid-1990s.

Gold Ore Reserves

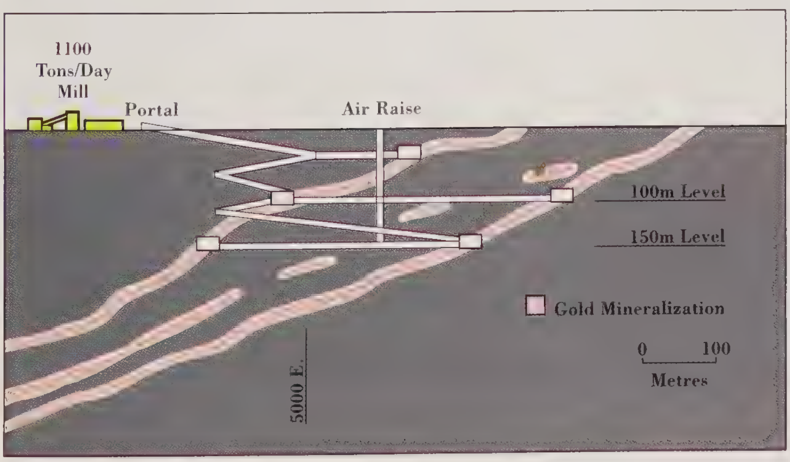
Relative to the properties managed by Inco Gold Inc. and IETS, Inco's share of proven and drill-indicated gold ore reserves at year end was approximately 16.4 million short tons containing 4.0 million ounces of gold, of which 87 per cent was in the proven and probable category. This compares with proven and drill-indicated reserves of 14 million short tons containing 3.4 million ounces of gold a year earlier. These reserves do not include gold contained in Inco's nickel/copper ores.



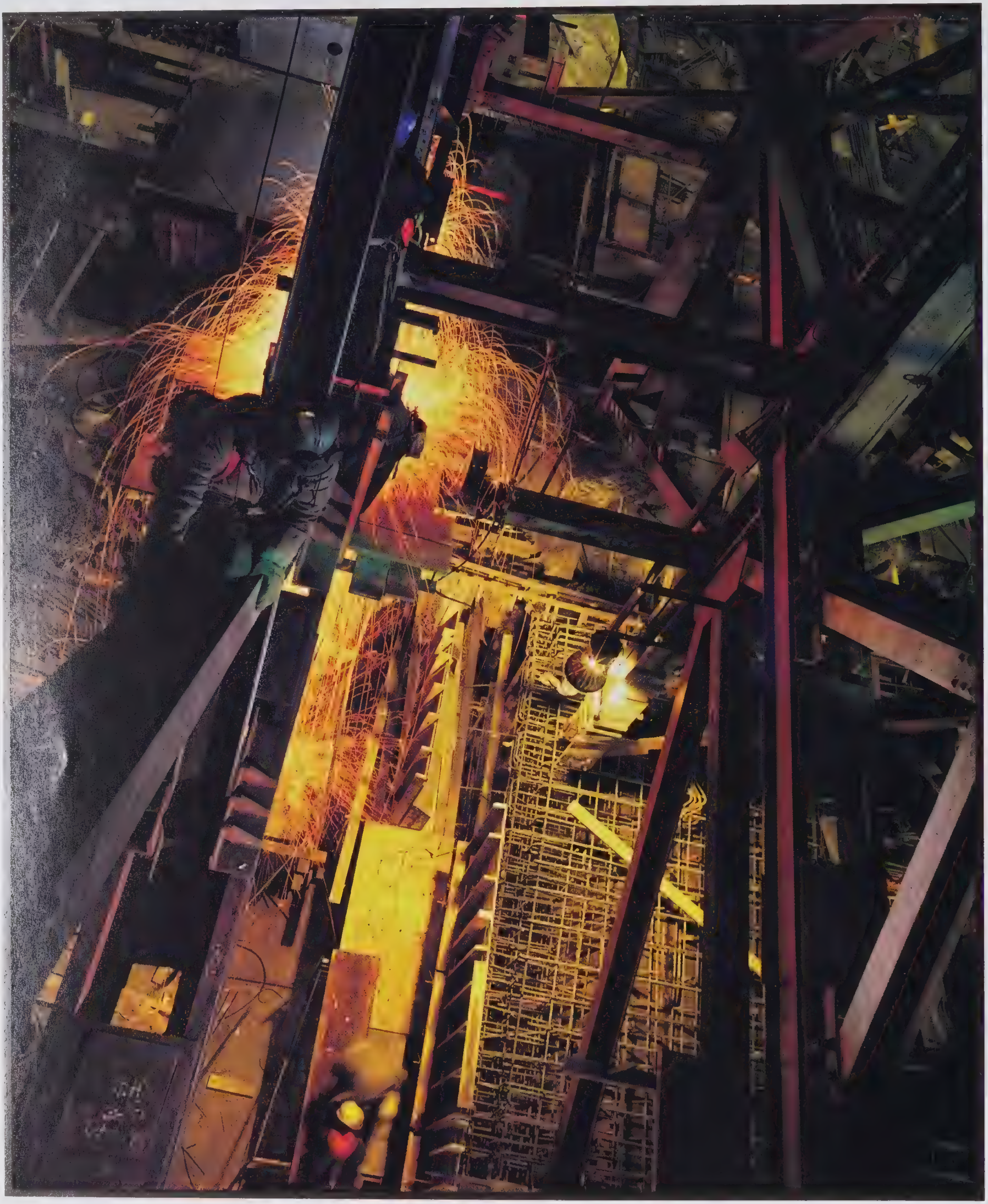
Mineral Hill Mine



Les Mines Casa Berardi



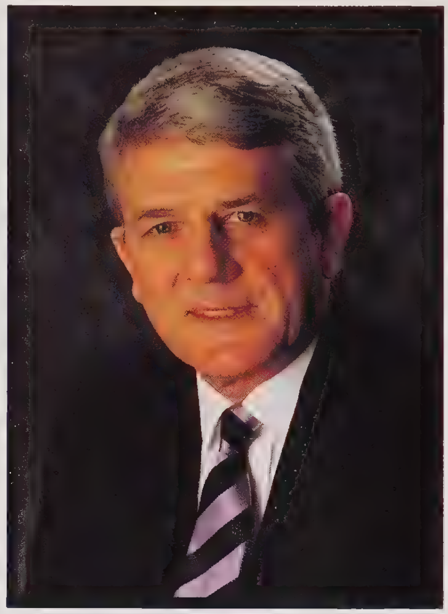
Crixas, Brazil



Work continued on schedule with the rebuilding and modernization of the Sudbury smelter, a $414 million project to reduce sulphur dioxide emissions.

Environment

Inco is committed to the concept of sustainable development, which requires balancing the need for economic growth with good stewardship in the protection of human health and the natural environment.



Executive Vice-President Roy Aitken is responsible for corporate affairs, including human resources, industrial relations, the environment and public affairs.

The Company believes the coming decade will see a growing recognition of the interdependence of environmental and economic matters and a concerted effort by all sectors of society to make the world a healthier place in which to live and work. Inco is committed, in all its activities and facilities, to do its part through appropriate, meaningful and timely actions.

In 1989, the Company adopted an Environmental Impact Policy that spells out its commitment to a pro-active environmental stance. The new policy, which is reprinted on the inside back cover of this Report, provides a framework for the development of specific environmental programs.

In developing these programs, the Company has integrated environmental impact assessments into the approval process for capital expenditures. It is also implementing an environmental audit procedure for each of its facilities and operations; and in 1989 completed initial audits at several surface facilities in Canada.

Significant capital investments are being undertaken by the Company to improve its environmental performance. By far the largest such project currently in progress involves the implementation of new technology to reduce sulphur dioxide (SO_2) emissions from the Sudbury smelter to the level of 265 kilotonnes annually, as required by the Government of Ontario's Countdown Acid Rain Program. This project continued on schedule in 1989. The new technology is expected to be fully implemented in 1994, resulting in a 60 per cent reduction of remaining SO_2 emissions at Sudbury. At that point, some 90 per cent of the sulphur in the ore mined and processed at Sudbury will be contained. Total estimated cost of the project is $414 million.

During 1989, the Company continued to operate in substantial compliance with government regulations and control orders related to effluent and waste emissions at all operations.

Even before it was officially opened, Mineral Hill Mine in Montana was recognized for its efforts to ensure the well-being of bald eagles near its property. The operation was presented the Greater Yellowstone Ecosystem Bald Eagle Working Group Award.

A crew at Inco Alloys International, Huntington, West Virginia, packs MONEL alloy u-bend tubing destined for a heat exchanger application in the power generation industry. Since the introduction of high-pressure feedwater heaters for power utilities, more than 50 million feet of alloy 400 have been supplied for this application.*

Alloys and Engineered Products

We will seek to generate improved and consistent earnings from our alloys and engineered products businesses by enhancing their worldwide market position.

In 1989, Inco's alloys and engineered products businesses achieved a significant improvement in operating results through increased deliveries of higher value products, higher average prices, the commercialization of new products, reduced expenses and tighter control of working inventories. Operating earnings increased 96 per cent to $94 million in 1989, and sales rose 26 per cent to $695 million.

Key strategies include:

- improve customer service with faster throughput times and more reliable delivery performance;
- continue to modernize and upgrade manufacturing equipment and control systems;
- improve the product portfolio through faster, focused product development and new manufacturing processes;
- improve product quality and the consistency of mechanical and physical properties; and
- continue to upgrade and expand finishing equipment to achieve products with improved surface quality, more consistent dimensions and tighter tolerances.

The materials performance requirements of customers for alloys and engineered products are becoming increasingly demanding. Many customers are seeking alloys with higher levels of strength, often to perform at higher operating temperatures and in increasingly corrosive environments. They are also looking for reduced weight and longer service life. Inco is investing in state-of-the-art equipment and the development of new alloys and engineered products to meet these demands.

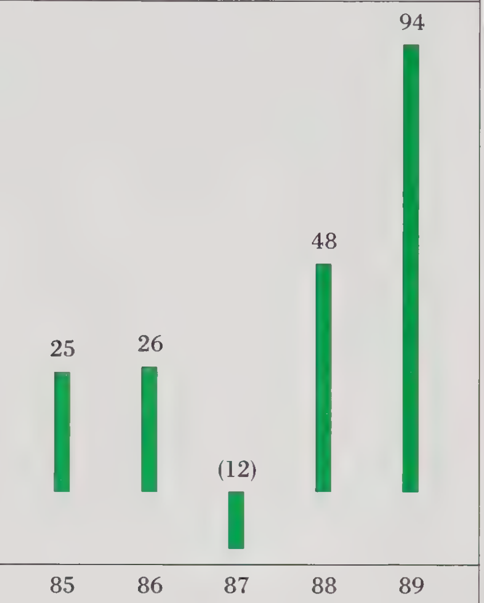
Capital expenditures at Inco's alloys and engineered products businesses were $41 million in 1989, up from $30 million in 1988. Spending on product research and development was $7 million in 1989 and $8 million in 1988.

Inco Alloys International

Inco Alloys International (IAI) achieved increased operating earnings in 1989, enhanced by raw materials price trends. Operating margins declined in the latter part of the year as these trends began to reverse. Sales rose 28 per cent to $548 million in 1989.

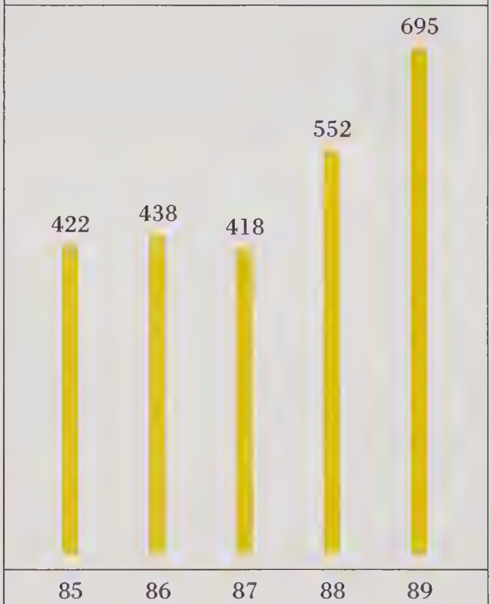
Operating Earnings (Loss)

$ in millions

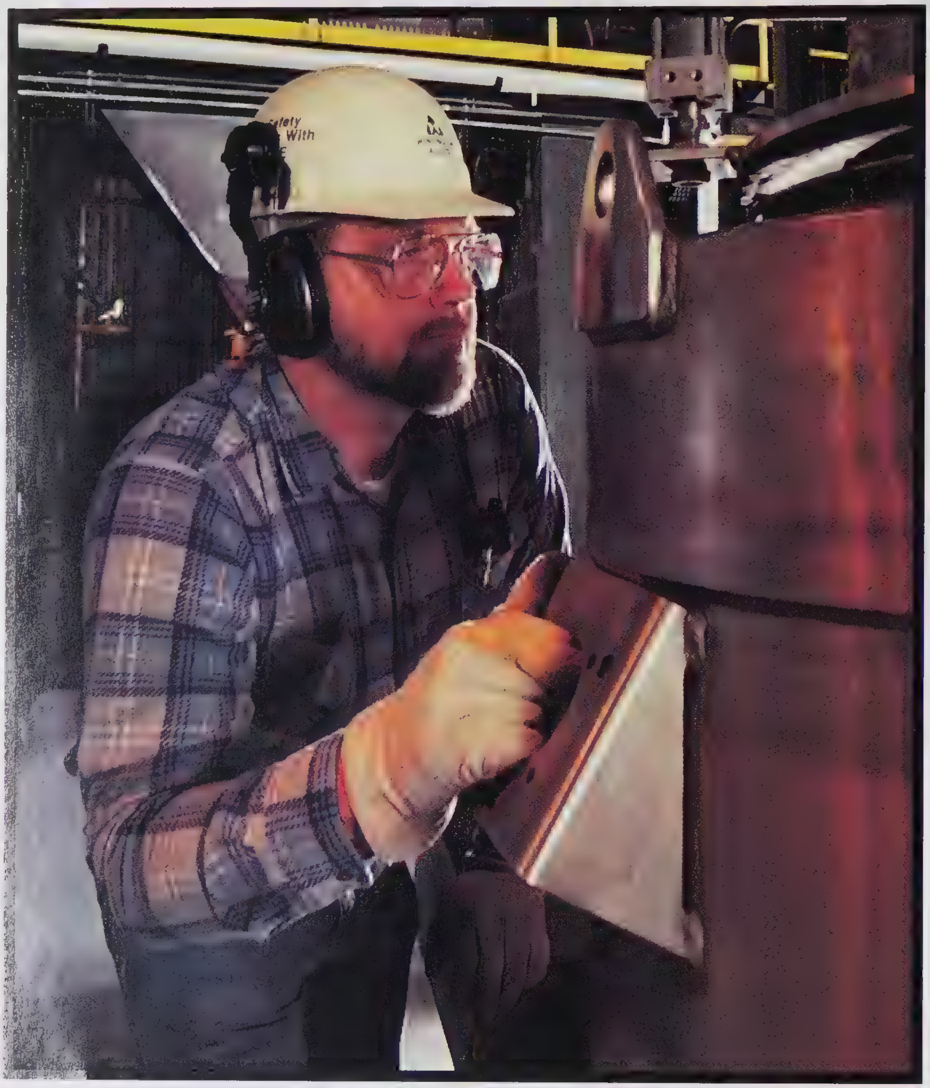


Sales to Customers

$ in millions



*Trademark of the Inco family of companies.



Phillip Dials checks the seal prior to discharging mechanically alloyed powders for further processing at Inco Alloys International's Burnaugh, Kentucky plant. IAI's mechanically alloyed products are well established for high-performance applications in military aircraft, gas turbine engines and the thermal processing industry. Products are under development for several high temperature non-aerospace applications in the U.S., Europe and Japan.

IAI is the world's leading producer of wrought and mechanically alloyed nickel alloys, producing alloys in strip, sheet, plate, tubing, bar, rod, foil, wire and welding products. It serves customers in the aerospace, marine, energy, chemical, petrochemical, thermal processing, pollution control, general engineering, electronics and consumer goods industries from production facilities in the United States and the United Kingdom.

Research programs are focused on the development of new alloys and product forms, as well as on productivity and quality improvements. Research continued to result in the development of new high value-added products for the most demanding applications, particularly in the aerospace, thermal processing, and oil and gas industries. Additions to IAI's product portfolio generated $11 million in new added value revenue in 1989 compared to $10 million in 1988.

Mechanically alloyed INCONEL* and INCOLOY* nickel- and iron-based alloys, already in use in aircraft gas turbine engines, are being production tested in a range of non-aerospace applications, including glass manufacture and thermal processing. Mechanically alloyed aluminum-based alloys are being tested for forged components in critical applications such as airframes. In addition, IAI is working with outside organizations to develop mechanically alloyed materials for superconductors and specialty powders for high-energy permanent magnets.

IAI is now producing cold rolled sheet to thickness tolerances 50 per cent better than the industry standard. By offering closer tolerances at no added charge, IAI has enhanced its position as a supplier of thin gauge sheet and strip products to the aerospace industry and other markets. Tolerance improvements have been made possible by the 1988 installation of a hot strip reversing mill at Huntington, West Virginia,

Executive Vice-President I. David Balchin is responsible for Inco's alloys and engineered products operations.

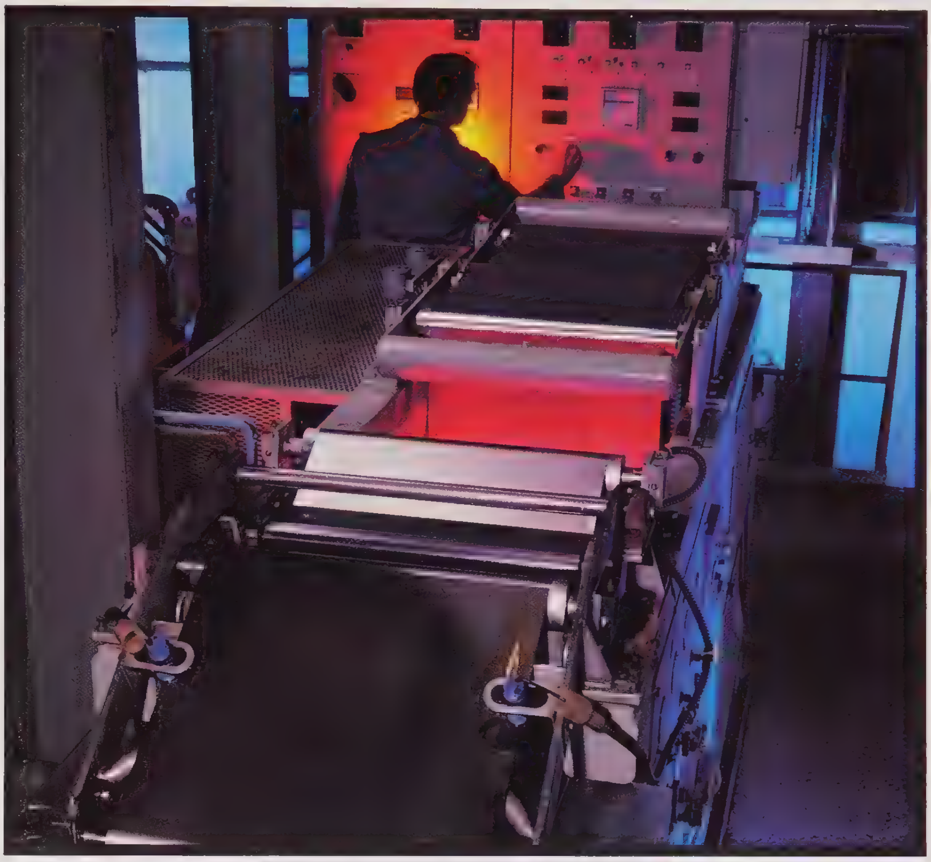
*Trademark of the Inco family of companies.

and the earlier purchase of a precision cold-rolling facility in Elkhart, Indiana.

Several major investment programs to improve product quality were completed or initiated in 1989. New vacuum arc remelting facilities are being installed at Huntington, West Virginia, and Hereford, England, with start-up scheduled in 1991. A new forging press is scheduled to be in operation at Huntington in 1991. In addition, total quality management systems at Hereford and Huntington are being modernized to improve product integrity and consistency. Other projects in the United States include new equipment and technologies for bar and wire production, plate levelling and strip slitting.

IAI completed the upgrading of its forging plant at Hereford to meet the increasing demand for products with more consistent metallurgical structure. The upgrading included a new computerized control system and the installation of an eight-tonne rail-bound manipulator for positioning ingots under the press during forging, and a billet transfer car to rotate the billets to forge both ends. The mechanical upgrading and computerized control of the larger extrusion press and the installation of a new tube reducer will be completed in 1990. To meet increased demand, production capacity for electroformed nickel foil will be doubled in 1990.

IAI is also expanding its geographic markets. Sheet from large, weld-free coils produced at facilities in the U.S. is being supplied to customers in Europe through a newly installed cutting facility at Hereford in the United Kingdom. A marketing company in Singapore, Inco Alloys Pte. Ltd., was established in 1989 to expand IAI's participation in the rapidly growing markets of the Pacific Rim. In addition, the marketing of high-performance alloys in Japan through Daido Inco Alloys Ltd., a 50 per cent owned joint venture company, was strengthened during the year.



At Hereford, England, a second line is being installed to produce electroformed nickel foil. The product has a wide variety of uses in gaskets, laminations and electronics applications as well as in MAXORB, a blackened nickel foil for solar collection devices.*

Inco Engineered Products

Sales of Inco Engineered Products (IEP) increased 20 per cent to $147 million. While IEP was profitable, its operating earnings were unsatisfactory, reflecting operating difficulties and continued intense competition in some of the markets it serves.

IEP manufactures forged, cast, machined and fabricated products from nickel-based and titanium-based alloys and other advanced materials. Its principal thrust is to work closely with customers in the aerospace, defense, energy and other industries to manufacture sophisticated components in advanced materials for demanding applications. Products include forged and machined blades and vanes, seamless rolled and forged rings, flash butt welded rings, turbine discs of

*Trademark of the Inco family of companies.

Above, left, Kevin Oakton works on the INCONEL* alloy 625 centre body and titanium nozzle (background) of the CFM56-5 aero-engine core nozzle assembly. Pictured above is the facility at Incoform Bramah in the United Kingdom.

wrought and powder alloys, precision-machined and fabricated components and precision titanium castings.

IEP sees especially good growth opportunities in the commercial aircraft market. Worldwide production of aircraft is increasing. Moreover, new jet engines are being designed to perform more quietly and efficiently, which involves using high temperature alloys that are difficult or even impossible to forge by conventional means. To help meet these needs, IEP has invested in new technologies, including isothermal forging, as well as in new plant and equipment, including new production facilities at the Incoform Bramah plant in the U.K. The Bramah business is working on the largest single contract ever awarded to an IEP plant – a multi-million dollar contract to supply the core nozzle assembly, the turbine exhaust duct for the CFM56-5 engine which powers the Airbus Industrie A320 airliner.

In 1989, IEP acquired Storms Forge, Inc. of Springfield, Massachusetts, a small precision forger and drop stamper supplying aerospace components for gas turbines and airframes. The acquisition strengthens IEP's ability to serve the North American aerospace industry.

IEP also acquired Anodic Machining Technologies Limited (Amtech) of Axminster, England, a precision machinist which develops and operates electrochemical machining techniques.

Incoform Bramah in the United Kingdom was awarded a multi-million dollar contract to supply components for the Airbus Industrie A320 airliner.

Employee Relations

A new three-year collective agreement was negotiated in December with hourly employees at Huntington. Annual negotiations were successfully completed with unionized employees at all operating units in the United Kingdom. The collective agreement with hourly employees at Burnaugh, Kentucky remains in effect until April 1990.

*Trademark of the Inco family of companies.

OTHER BUSINESS

We will maintain ongoing programs to identify related profitable business opportunities where we can apply our technology and our production and market development skills.

Mining Equipment
Through Continuous Mining Systems Limited (CMS), Inco has established a profitable, growing business in the design, manufacture and sale of innovative mining equipment. Total sales increased nearly 60 per cent in 1989 to $23 million, with some 57 per cent of those sales made to customers other than Inco. CMS markets more than a dozen product lines, ranging from drilling equipment to conveyor machines. During the year, CMS acquired L.H.D. Equipment Limited, an Ontario-based manufacturer of hydraulic components for mining equipment.

Reclamation Facilities
Operating earnings of The International Metals Reclamation Company, Inc. (Inmetco) rose to $5 million in 1989 from $4 million in 1988, reflecting increased demand for its products and services and higher product prices. Inmetco converts waste from specialty steel mills into steelmaking charge materials using proprietary Inco technology. It is

Inmetco, at Ellwood City, Pennsylvania, is the only plant of its kind in North America to convert waste from specialty steel mills into steelmaking charge material. Pictured at Inmetco's pig caster is Jerry Speelman Jr.

Principal Officers

Stuart F. Feiner
President
Inco Venture Capital Management
New York, New York

Richard H. Hanewald
President
The International Metals Reclamation Company, Inc.
Ellwood City, Pennsylvania

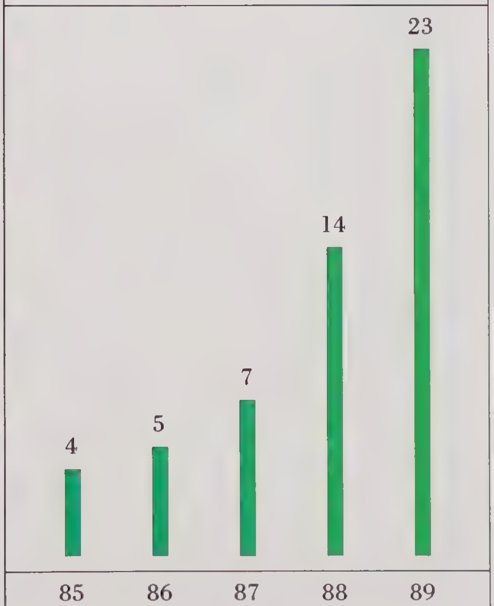
Wilber W. Kirk
President
LaQue Center for Corrosion Technology, Inc.
Wrightsville Beach
North Carolina

Dale D. Letts
President
Continuous Mining Systems Limited
Sudbury, Ontario

Michael T. Nelligan
President
Western Aggregates, Inc.
Boulder, Colorado

Continuous Mining Systems Sales to Customers*

$ in millions



*Includes sales to Inco.

benefitting increasingly from its ability to recycle steelmaking waste, including toxic materials, in an environmentally sound manner.

In 1989, an employee of Inmetco was fatally injured in an industrial accident. We deeply regret this tragic event and have redoubled our efforts to ensure employee safety.

Lightweight Aggregates

In 1989, Inco acquired Western Aggregates, Inc. located near Boulder, Colorado, U.S.A. Western Aggregates plans to develop an open pit mine and construct facilities to produce an expanded shale called "lightweight aggregate." Estimated capital cost is $14 million. The product will be used by the construction industry as a lightweight sand and gravel substitute to make block, concrete floors and thin-shell roofs in high-rise buildings, precast, prestressed concrete and tilt-up walls, and in other applications where reduced weight and structural strength are critical. The mine and plant are scheduled to begin operation in 1990 and process more than 350,000 tons of aggregate annually at full production.

Venture Capital

Due principally to sales of the shares of one publicly-traded biotechnology company, operating earnings of Inco Venture Capital Management (IVCM) improved to $8 million in 1989, compared with a $3 million operating loss in 1988. Nonetheless, venture capital industry performance continued to be adversely affected by several factors limiting liquidity, including an extremely selective new issue market focused on more mature businesses and investor disinterest in early stage, technology-based companies. Under these conditions, IVCM continued to defer certain planned sales of portfolio positions because of market valuations and other factors. At year-end 1989, the Company's portfolio had a book value of $25 million, which, based on valuation methods employed in the venture capital industry, could be valued at $38 million.

Through IVCM, an unincorporated business unit, Inco has since 1974 been a source of private equity capital and strategic direction to start-up and early-stage companies having the potential for significant growth and investment returns. IVCM's portfolio remains broadly based, encompassing investments in over 50 companies spread among a wide range of technologies and at various stages of development, as well as participation in leveraged buyouts. Progress continued to be made during 1989 by a number of portfolio companies seeking to develop and commercialize their proprietary technologies and business strategies.

IVCM continued its nine-year role as an independent venture capital fund manager through participation in the management of $47 million raised from institutional investors through two Ontario limited partnerships, North American Ventures Fund and North American Ventures Fund II.

Corrosion Testing and Consulting

The LaQue Center for Corrosion Technology, Inc., a world leader in corrosion testing, consulting and training, operated profitably in 1989.

Energy

Inco sold its interest in Morgan Hydrocarbons Inc. for $19.3 million, realizing a gain of $3.6 million.

Left to right are: Michael D. Sopko, Vice-President (human resources); Donald J. Phillips, Chairman, President and Chief Executive Officer; and Scott M. Hand, Vice-President, General Counsel and Secretary. Standing is Executive Vice-President Ian McDougall (Chief Financial Officer).

Financial Folio

Contents

Management's Statement on Financial Reporting

The information and representations in this Annual Report have been prepared by management. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in Canada and, where appropriate, reflect management's best estimates and judgments. The financial information presented throughout this Report is consistent with the data presented in the financial statements.

Systems of internal accounting control are maintained in order to assure on a reasonable basis the reliability of this financial information. These systems include formal policies and procedures, the careful selection and training of qualified personnel, and an organization providing for appropriate delegation of authority and segregation of responsibilities. These systems are monitored by our internal auditors who perform extensive tests and related procedures at major locations worldwide. Our independent auditors, whose report on their examinations of the consolidated financial statements appears on page 46, also review our systems of internal accounting control in accordance with generally accepted auditing standards for the purpose of expressing their opinion on the consolidated financial statements.

Financial management personnel, our internal auditors and our independent auditors meet with the Audit Committee of the Board of Directors at least three times a year to report on accounting, auditing, internal accounting control and financial reporting matters. The Audit Committee also has other duties which are described on page 50.

This Annual Report has been reviewed and approved by the Board of Directors.

Donald J. Phillips

Chairman, President and
Chief Executive Officer

Iain McDougall

Executive Vice-President
(Chief Financial Officer)

In keeping with our concern for the environment, the paper selected for the financial section of this Report contains a minimum of 75 per cent recycled fibre.

Ten-Year Review

	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980
Summary of operations										
(U.S. $ in millions, except per share data)										
Net sales	**$3,948.0**	3,263.1	1,789.5	1,451.6	1,490.5	1,468.0	1,173.4	1,236.0	1,885.9	2,150.0
Cost of sales and operating expenses	**$2,343.5**	1,726.6	1,356.8	1,231.7	1,205.8	1,316.5	1,257.8	1,277.8	1,456.9	1,335.7
Selling, general and administrative expenses	**$ 158.6**	158.6	111.8	97.9	90.6	100.8	102.5	123.2	144.4	144.5
Interest expense	**$ 138.3**	91.6	101.0	94.0	101.6	122.1	111.4	148.3	147.1	124.8
Income and mining taxes	**$ 515.5**	532.8	73.5	26.5	49.4	22.2	(91.3)	(119.9)	81.1	260.7
Net earnings (loss)	**$ 753.4**	735.4	125.2	0.2	52.2	(77.3)	(234.9)	(203.3)	(469.6)	231.5
Net earnings (loss) applicable to common shares	**$ 747.9**	729.6	113.8	(16.6)	27.8	(100.1)	(256.8)	(231.4)	(497.6)	205.3
Per common share	**$ 7.11**	6.92	1.09	(0.16)	0.28	(1.02)	(2.69)	(2.81)	(6.51)	2.72
Common dividends declared	**$ 89.5**	1,132.3*	20.9	20.4	19.9	19.5	19.1	16.1	45.0	52.1
Per common share	**$ 0.85**	10.70*	0.20	0.20	0.20	0.20	0.20	0.20	0.59	0.69
Common shares outstanding (weighted average, in millions)	**105.2**	105.4	104.5	102.2	99.6	97.7	95.5	82.2	76.4	75.5
Other financial data										
(U.S. $ in millions)										
Capital expenditures	**$ 389.3**	228.9	137.9	138.5	93.2	103.6	71.1	95.3	152.2	143.3
Depreciation and depletion	**$ 193.8**	177.0	152.5	143.8	143.3	140.0	126.1	110.3	139.9	142.5
Research and development expense	**$ 38.4**	33.1	27.0	21.8	21.9	22.4	29.4	35.8	37.0	34.1
Exploration expense	**$ 55.5**	43.0	21.9	16.7	17.1	15.8	20.3	19.2	32.7	26.9
Working capital	**$ 591.4**	(130.9)*	472.6	434.6	505.3	494.4	528.1	789.4	1,023.2	1,081.3
Net property, plant and equipment	**$2,078.4**	1,899.5	1,850.7	1,886.0	1,910.6	1,972.9	2,035.5	2,109.0	2,136.1	2,542.4
Total assets	**$3,665.5**	4,078.8	2,994.4	2,975.9	3,082.6	3,110.4	3,183.2	3,472.5	3,856.4	4,720.9
Total debt	**$1,006.5**	735.2	884.0	995.2	929.4	1,113.9	1,174.3	1,203.4	1,331.4	1,351.7
Preferred shares	**$ 72.6**	78.1	111.1	153.5	278.4	401.3	335.3	338.6	341.8	345.0
Common shareholders' equity	**$1,289.3**	689.2*	1,083.5	996.1	987.1	914.3	1,027.4	1,215.6	1,332.9	1,859.1
Return on year-end common shareholders' equity	**58.0%**	105.9%	10.5%	—	2.8%	—	—	—	—	11.0%
Total debt:equity ratio	**42:58**	49:51	43:57	46:54	42:58	46:54	46:54	44:56	44:56	38:62
Operating data										
Ore mined – short tons in millions	**18**	17	16	14	15	16	10	7	13	16
Nickel production – pounds in millions	**427**	434	430	357	334	359	283	201	330	394
Nickel deliveries – pounds in millions	**514**	495	477	380	358	356	314	251	342	345
Copper deliveries – pounds in millions	**278**	256	275	254	251	273	140	167	240	288
Cobalt deliveries – pounds in thousands	**3,210**	3,490	3,450	2,790	2,670	2,410	1,790	2,530	3,620	1,950
Platinum-group metals deliveries – troy ounces in thousands	**331**	322	322	339	326	327	177	279	273	308
Gold deliveries – troy ounces in thousands	**79**	52	49	58	58	52	24	31	44	41
Realized prices per pound *(U.S. $)*										
Primary nickel, including intermediates	**$ 5.61**	4.81	2.18	1.94	2.31	2.28	2.17	2.55	2.99	3.14
Refined copper	**$ 1.22**	1.12	.73	.64	.64	.63	.72	.71	.82	1.00
Other statistics										
Employees at year end	**19,337**	18,658	18,706	20,171	20,828	22,239	24,866	25,798	31,678	33,975
Common shareholders at year end	**39,217**	26,036	30,030	34,690	39,829	45,789	49,653	55,759	62,054	67,609

* Reflects special cash dividend of $1,058.5 ($10.00 per common share) payable January 9, 1989.

Management's Discussion and Analysis

Results of Operations

Summary Net earnings in 1989 of $753 million were at a record level for a second consecutive year; net earnings were $735 million in 1988 and $125 million in 1987. These results reflected continued strength in the Company's primary metals business, again driven primarily by higher base metal prices. The price of nickel, the principal determinant of the Company's profitability, began the year near its all-time high and achieved a record yearly average, but declined during 1989 and ended at the year's lowest levels. Other positive factors in 1989 included continued improvement in the alloys and engineered products businesses and $64 million in pretax gains on sales of equity interests in certain affiliates. The 1988 results included a $44 million gain from the sale of a 20 per cent equity interest in the Company's Indonesian subsidiary.

Primary Metals For the year, operating earnings were $1,360 million, 2 per cent lower than the record $1,385 million in 1988 but more than four times the $332 million of 1987. Relative to 1988, the positive effects of continued strong nickel demand and higher realized nickel prices were more than offset in 1989 by increased costs and expenses.

Free market nickel demand is estimated to have reached 1.44 billion pounds in 1989, a new record for the third consecutive year, compared to 1.42 billion pounds in 1988 and 1.41 billion pounds in 1987. This strong demand continued to be fueled by the stainless steel industry, which consumed over 60 per cent of all nickel produced and about 40 per cent of the Company's production. The Company's nickel deliveries rose 4 per cent in 1989, following a 4 per cent increase in 1988 and a 26 per cent increase in 1987, to their highest level since 1974. The Company's share of free market demand rose to an estimated 36 per cent in 1989 from 35 per cent in 1988 and 34 per cent in 1987.

The significant upward pressure on nickel prices, which began in mid-1987 and continued throughout 1988, began to subside in mid-1989 as an increased supply of nickel to the free market met and eventually exceeded demand. Nickel supply for the year is estimated to have met demand for the first time since 1986.

Primary Metals *($ millions)*	**1989**	1988	1987
Sales by product			
Primary nickel	**$2,674**	$2,202	$ 967
Refined copper	**338**	283	199
Precious metals	**148**	146	144
Cobalt	**23**	24	22
Other products	**35**	31	26
Net sales to customers	**$3,218**	$2,686	$1,358
Operating earnings	**$1,360**	$1,385	$ 332
Deliveries *(thousands)*			
Primary nickel, including intermediates(1)	**476,420**	457,920	444,630
Nickel contained in alloys and engineered products	**37,340**	36,870	32,420
Total nickel (pounds)	**513,760**	494,790	477,050
Copper (pounds)(2)	**278,130**	255,840	274,860
Cobalt (pounds)(2)	**3,210**	3,490	3,450
Platinum-group metals (troy ounces)(3)	**331**	322	322
Gold (troy ounces)(3)	**79**	52	49
Realized prices *($ per pound)*			
Primary nickel, including intermediates	**$5.61**	$4.81	$2.18
Refined copper	**1.22**	1.12	0.73

(1) Includes 83 million pounds in 1989, 40 million pounds in 1988 and 18 million pounds in 1987 purchased on the London Metal Exchange.

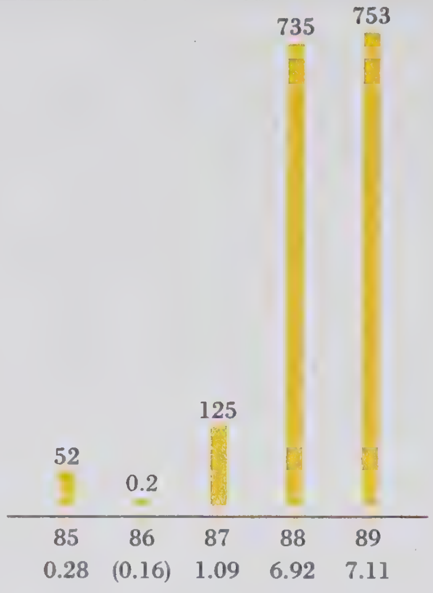
(2) Includes metals contained in alloys and engineered products.

(3) Excludes toll refined materials.

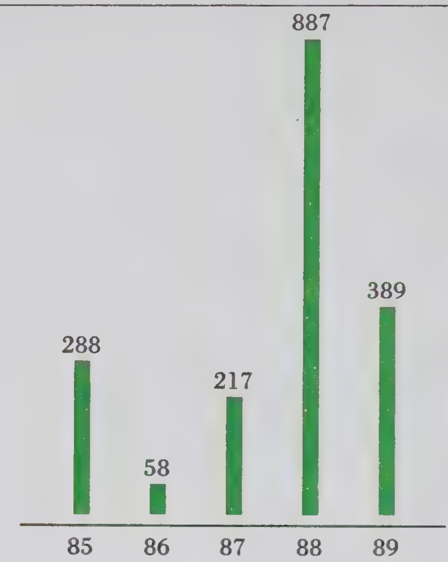
The London Metal Exchange (LME) three-month nickel price first began moving up sharply late in 1987, finishing the year at $4.01 per pound, and reached an all-time high of $8.55 per pound in March 1988 before closing 1988 at $7.46 per pound. During 1989, the LME three-month price peaked at $8.50 per pound on February 22 and then declined, ending the year at $3.63 per pound. This trend continued in early 1990; as of mid-February 1990 the three-month price was $3.13 per pound. For the year 1989, the LME three-month nickel price averaged a record $5.82 per pound compared to $5.59 per pound in 1988 and $2.20 in 1987.

The Company's nickel price realizations tend to lag LME price movements whenever sudden price changes occur, primarily due to contractual sales arrangements. This was evident in both 1989 and 1988; the Company's average realized nickel price for the first quarter of 1989 was $6.59 per pound, declining to $5.97, $5.28 and $4.64 per pound for the second, third and fourth quarters, respectively. In recent years the Company has increasingly been marketing its nickel products using long-term, fixed volume contracts aimed at providing customers with an assured supply and a degree of price certainty, while offering the Company

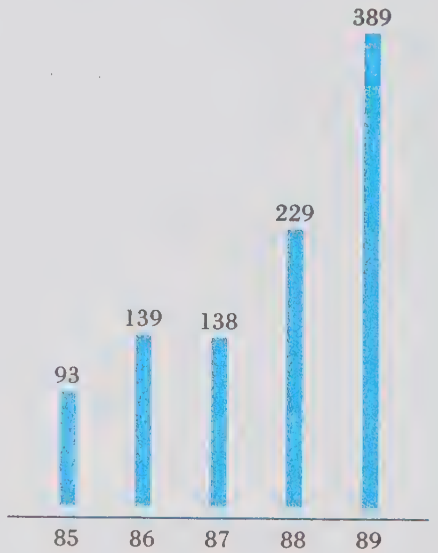
Net Earnings
$ in millions



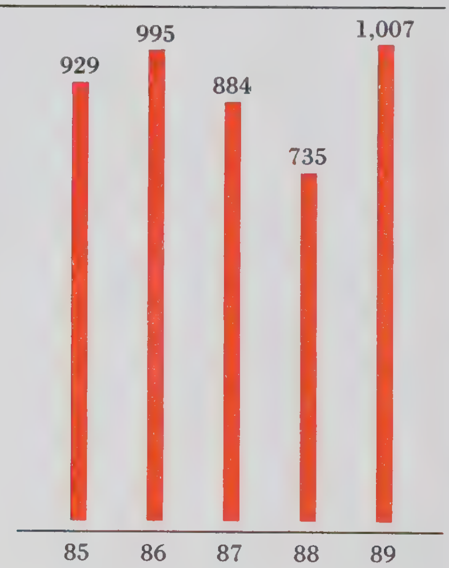
Cash Surplus before Financing Activities
$ in millions



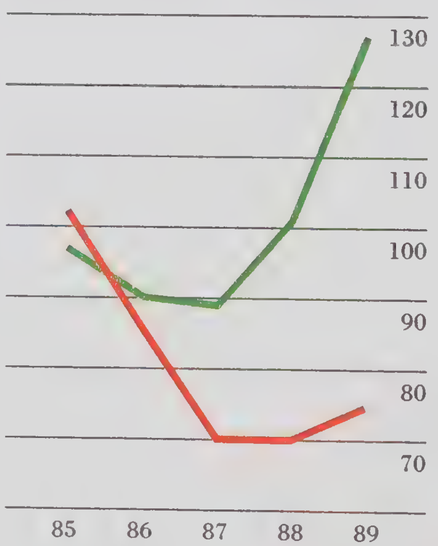
Capital Expenditures
$ in millions



Total Debt
$ in millions

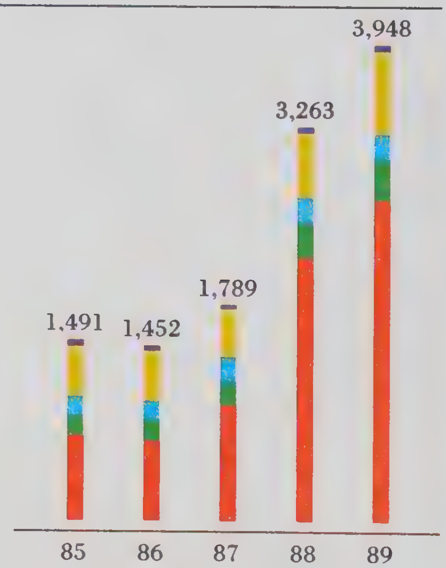


Indexed Unit Nickel Production Costs*
(1980 = 100)



*excludes costs of nickel price bonuses and profit-sharing arrangements

Sales by Product
$ in millions



	85	86	87	88	89
Nickel	732	674	967	2,202	2,674
Copper	160	162	199	283	338
Other primary metals	148	166	192	201	206
Alloys and engineered products	422	438	418	552	695
Other	29	12	13	25	35

a degree of assurance concerning deliveries and price. These contracts, combined with the requirements of the Company's alloys and engineered products businesses and its affiliated refineries in the Pacific Rim, plus sales of proprietary nickel powders, provide an outlet for over 80 per cent of current production capacity. The Company's average realized nickel price for the year 1989 was a record $5.61 per pound, exceeding by 17 per cent the previous record of $4.81 per pound achieved in 1988, which was 121 per cent higher than the 1987 realized price. This price realization, combined with strong deliveries, resulted in 1989 primary nickel sales of $2,674 million, an increase of 21 per cent over 1988, which was 128 per cent above the 1987 level.

Primary metals operating earnings, in addition to being affected by production costs and expenses, are highly dependent upon the worldwide markets for the Company's products, particularly nickel; such markets in the past have tended to be cyclical in nature and subject to substantial volatility in demand and price. The Company's realized prices for nickel products rose dramatically in 1989 and 1988; the effect of these price improvements on operating earnings can largely be determined by applying the amount of the price change to the quantity of nickel delivered, excluding quantities of purchased nickel on which little or no profit is realized. The following table shows the approximate impact on operating earnings of price changes for the Company's more significant metals, assuming the change were to remain in effect for a full year:

	Amount of Price Change	Impact on Operating Earnings*
Nickel	$ .10 per pound	$43.1 million
Copper	.10 per pound	27.8 million
Cobalt	1.00 per pound	3.2 million
Platinum	10.00 per troy ounce	1.3 million
Gold	10.00 per troy ounce	0.8 million

* Based on 1989 deliveries excluding LME purchased nickel.

Strong world market conditions in 1989 continued to affect the Company's copper sales positively. Copper prices maintained 1988's historically high levels throughout the year; the Company's copper price realization averaged $1.22 per pound for 1989, a 9 per cent increase over 1988 which itself was a 53 per cent increase over 1987. Combined with the 9 per cent increase in copper deliveries, these higher prices resulted in record sales of refined copper in 1989 of $338 million, a 19 per cent increase over 1988 and 70 per cent above 1987. The Company's price realizations for platinum-group metals and gold in 1989 were generally lower than those of 1988 and 1987, while the price realized for cobalt of $7.93 per pound was an 8 per cent improvement over the 1988 price, which had improved 9 per cent compared to 1987.

Productivity, as measured in pounds of nickel plus copper produced per manshift, declined 8 per cent in 1989, after improving 4 per cent in 1988 and 3 per cent in 1987. This was due generally to a lower grade of nickel in ore mined at the Canadian operations, and in particular to processing problems associated with a higher arsenic content of ore mined at the Thompson Open Pit North Mine. Despite the decline in 1989, productivity has increased 76 per cent since 1982. The unit production cost of both nickel and copper increased in 1988 for the first time since 1982, and increased again in 1989. These increases, attributable primarily to the Company's Canadian operations, were due principally to the reduced productivity in 1989, the strengthening of the Canadian dollar against the U.S. dollar in 1989 and 1988 of 4 per cent and 8 per cent, respectively, and the effect of new collective bargaining agreements, including significant pension improvements, in Canada. Unit production costs in 1989 included a full year's effect of the three-year collective bargaining agreements negotiated at the Ontario Division in May 1988 and at the Manitoba Division in September 1987, while 1988 and 1987 costs reflected only a partial impact of these agreements. Starting in 1988, all employees of the Company's primary metals operations participate in profit-sharing or bonus arrangements which link a portion of their compensation to the financial performance of these operations or the Company's realized price of nickel. As a result of the record level of nickel prices and operating earnings, $63 million in 1989 and $49 million in 1988 were reflected in primary metals costs and expenses in accordance with these arrangements.

Nickel production, especially from lateritic ores, is energy intensive and relative energy costs can be an important factor. The Company enjoys relatively low energy costs due to substantial production from its Canadian sulphide ores, which consume only about one-fifth the energy required to process lateritic ores, and to low-cost electricity produced by its own hydroelectric facilities in Ontario and at its lateritic mining operations in Indonesia. The availability of captive hydroelectric power decreased the cash energy costs of the Indonesian operations in 1989 by about 48 per cent compared to those which would have been incurred had the operations been totally energy dependent on oil.

The Company's nickel production declined slightly in 1989 to 427 million pounds from 434 million pounds in 1988 and 430 million pounds in 1987. In light of current market conditions planned production for 1990 is 400 million pounds, a 6 per cent reduction from 1989. Total production capacity is expected to increase to about 450 million pounds annually beginning in 1991 or 1992 as new mines are brought on stream in Canada and production is expanded in Indonesia.

Primary metals results include operating earnings from the Company's Indonesian nickel operations of $252 million in 1989, compared to $205 million in 1988 and $15 million in 1987. The 1989 and 1988 results represent the first substantial operating earnings since production began in 1978. The Indonesian operation, which sells substantially all of its output into the Japanese market, attained a record level of production in 1989 of 64 million pounds of nickel in matte. Despite this increase in production, the unit production cost of nickel increased in 1989 due mainly to scheduled production interruptions, in part to carry out the capacity expansion described below, and to temporary use of higher cost thermal power when necessary to supplement the hydroelectric power facilities. In July 1988, the Company concluded the sale of a 20 per cent equity interest in its Indonesian subsidiary to Sumitomo Metal Mining Co., Ltd. of Japan for $100 million. At the same time the Company and Sumitomo agreed to expand capacity of the operations from a nominal annual capacity of 80 million pounds of nickel in matte to 105 million pounds. This expansion, estimated to cost $81 million, is scheduled to be completed in late 1990 and thereafter Sumitomo will purchase approximately 20 per cent of production from the expanded facility.

The Company's exploration expense increased for the third consecutive year to $56 million in 1989 from $43 million in 1988 and $22 million in 1987. The greater expenditures in both years reflect the Company's increased focus on gold and other precious metals and, to a lesser extent, increased exploration activity at the existing Canadian nickel operations.

Alloys and Engineered Products

Alloys and Engineered Products *($ millions)*	**1989**	1988	1987
Net sales to customers	**$695**	$552	$418
Operating earnings (loss)	**$ 94**	$ 48	$ (12)

Operating earnings continued to show significant improvement in 1989, reaching $94 million compared to $48 million in 1988 and an operating loss of $12 million in 1987. Net sales to customers rose to $695 million, a 26 per cent increase over 1988, which itself had improved 32 per cent from the 1987 level. The improvement in operating earnings in 1989, as in 1988, was due to higher average selling prices, largely reflecting increased raw material prices, along with increased deliveries of higher margin products and reduced operating costs. Alloys operating margins declined in the latter half of 1989 as favorable raw material price trends began to reverse. Results in 1989 included gains aggregating $7 million from the sale of surplus properties, while 1988 results included a $9 million inventory writedown.

Other Business

Other Business *($ millions)*	**1989**	1988	1987
Net sales to customers	**$ 35**	$ 25	$ 13
Operating earnings	**$ 19**	$ 1	$ 2

The principal units included in other business are Inco Venture Capital Management (IVCM), The International Metals Reclamation Company, Inc. (Inmetco), and Continuous Mining Systems Limited, a manufacturer and marketer of innovative mining equipment.

Operating earnings of IVCM totalled $8 million in 1989, compared with a $3 million operating loss in 1988 and operating earnings of $3 million in 1987. The increase in operating earnings in 1989 resulted mainly from sales of the shares of one publicly traded biotechnology company. Inmetco had operating earnings of $5 million in 1989 compared to $4 million in 1988 and an operating loss of $1 million in 1987, reflecting increased demand for its products and services and higher product prices. Continuous Mining Systems Limited maintained its strong growth. Sales increased approximately 60 per cent in 1989 to $23 million, $13 million of which were made to customers outside of the Inco group.

Interest Total interest expense increased in 1989 to $138 million from $92 million in 1988 and $101 million in 1987. Higher interest expense in 1989 reflects the higher average debt balances outstanding during the year, resulting from the $500 million borrowing in January 1989 to finance in part the special cash dividend of $1,059 million paid in that month. The lower interest expense in 1988 as compared to 1987 reflected a reduction in average debt balances of approximately 20 per cent, partially offset by higher interest rates.

Income and Mining Taxes The effective tax rate (the relationship of income and mining taxes to pretax earnings) had been increased in 1987 by the losses incurred by the Company's operations in Indonesia and the United States, on which no tax benefit was recognized. These operations were profitable in 1988 and 1989; applicable income taxes were offset in part by the recognition of tax benefits relating to prior years' losses of $56 million in 1989 and $45 million in 1988. The effective tax rate was also reduced by recognition, upon utilization in 1987, of additional tax relief attributable to losses incurred in Canada in prior years and by earnings derived outside of Canada where the Company's operations are taxed at lower rates than those which prevail in Canada. In addition, taxes were reduced by $1 million in 1989, $2 million in 1988 and $14 million in 1987 for refunds of Advance Corporation Tax under United Kingdom treaty provisions covering dividends paid to non-residents.

Cash Flow, Capital Resources and Liquidity
On January 9, 1989, the Company paid a special cash dividend of $10 per common share totalling $1,059 million which was financed by utilizing cash and marketable securities and through borrowings in the amount of $500 million under the Company's committed credit facilities. Immediately after these borrowings, total debt (long-term debt plus notes payable) was $1,235 million. By December 31, 1989, total debt had been reduced to $1,007 million.

During 1989 the Company generated a cash surplus, before financing activities, of $389 million, as compared with surpluses of $887 million in 1988 and $217 million in 1987. The 1989 surplus included $83 million aggregate proceeds from the sales of a 30 per cent equity interest in Shimura Kako Company, Ltd. and a 26 per cent equity interest in Morgan Hydrocarbons Inc. The 1988 surplus included $100 million from the sale of a 20 per cent equity interest in the Company's Indonesian subsidiary, P.T. International Nickel Indonesia, which reduced the Company's interest to about 78 per cent. The Company is currently considering a public offering on the Indonesian stock exchanges to sell up to an additional 20 per cent of P.T. International Nickel Indonesia's outstanding shares presently owned by Inco Limited. Such an offering would be in keeping with the Contract of Work which calls for equity offerings to Indonesians. The Company is unable to comment at this time on possible proceeds from the proposed offering.

The Company paid income and mining taxes during 1989 in the amount of $804 million, of which some $430 million were paid in the first quarter for final 1988 installments. A total of $28 million was paid during 1988. Final installments of $93 million relative to 1989 will be paid in the first quarter of 1990.

Capital expenditures totalled $389 million in 1989 as compared to $229 million in 1988 and $138 million in 1987. Capital expenditures are expected to increase to about $500 million in 1990 as the Company continues major programs to sustain and expand nickel production capacity, improve productivity, modernize its alloys and engineered products facilities and meet environmental regulations. In 1988, the Company announced a $414 million five-year program to reduce sulphur dioxide emissions in Sudbury under which $65 million was spent in 1989 and $155 million is expected to be spent in 1990. This program includes major technology changes relating to milling ($57 million) and smelting ($357 million). While the smelter modernization will yield only a modest return on investment, it is expected to increase smelting productivity by 20 per cent, improve workplace conditions and provide a state-of-the-art facility to meet smelting requirements well into the next century.

During 1989, the Company used a portion of its cash surplus to repurchase and cancel 1,698,800 Common Shares at an aggregate cost of $49 million. An additional 450,000 shares were repurchased, at an aggregate cost of $13 million, and held in trust for issuance to employees in February 1990 under the Company's Employee Share Award Plan. Of the Common Shares purchased during 1989, 1,848,800 were purchased under the 2,000,000 share Normal Course Issuer Bid announced by the Company on April 19, 1989. This program was superseded in October 1989 when the Company announced a new Normal Course Issuer Bid to purchase an additional 5,000,000 Common Shares, representing about 4.8 per cent of the Common Shares then outstanding. By year end, 300,000 Common Shares were purchased under the new Normal Course Issuer Bid. The remaining 4,700,000 shares may be purchased at market prices on the Toronto, Montreal and New York stock exchanges, subject to business considerations and market conditions, during the period ending November 1990.

On April 19, 1989, the Company also announced a Normal Course Issuer Bid to purchase up to 230,000 of its 7.85% Series B Preferred Shares at market prices over the following twelve months. During 1989, the Company purchased for cancellation 139,200 Series B Preferred Shares at an aggregate cost of $3 million. On June 26, 1989, the Company advised its shareholders of its intention to redeem its remaining outstanding Series C Preferred Shares on August 1, 1989. The total cost of Series C Preferred Share redemptions in 1989 was $5 million.

In addition to the special dividend of $1,059 million paid in January 1989, the Company increased its quarterly common dividend to $0.25 per share, from $0.20, in the fourth quarter of 1989. Regular dividends totalling $89 million ($.85 per share) were paid to common shareholders in 1989 as compared to $74 million ($.70 per share) in 1988. Preferred dividends totalled $6 million in both 1989 and 1988.

On June 29, 1989, the Company received the proceeds from the issuance in the U.S. domestic market of $150 million of 9.875% Sinking Fund Debentures due 2019.

In order to provide liquidity for its operations, the Company maintains two related committed bank credit facilities aggregating $1,000 million. One facility designates up to $250 million as Tranche A and a further $250 million as Tranche B. The other facility designates up to $150 million as Tranche A and a further $350 million as Tranche B. Borrowings under these facilities bear interest at rates ranging from 3/8% to 1/2% over the London Interbank Offered Rate. Each facility provides that so long as advances under only Tranche A are outstanding, the Company will be required to maintain a Consolidated Debt to Net Worth Ratio (as defined therein) not to exceed 55:45. At December 31, 1989, only borrowings under Tranche A were outstanding, and the Consolidated Debt to Net Worth Ratio was 41:59. Should borrowings be made under Tranche B, each facility provides that the Company will instead be required to maintain a minimum Tangible Net Worth of $200 million, to limit Aggregate Indebtedness to $2,000 million, and to maintain an Interest Coverage Ratio (all terms as defined therein) of not less than 1.75:1. At December 31, 1989, Tangible Net Worth was $1,455 million and Aggregate Indebtedness was $1,007 million; for the year 1989 the Interest Coverage Ratio was 11.8:1.

The Company believes that its operating cash flow, along with its access to the domestic and international credit markets, its unutilized committed bank credit facilities, and excess cash and marketable securities at December 31, 1989, will be sufficient to meet its operating needs and anticipated capital expenditures in 1990. Additionally, these resources should provide the Company with sufficient flexibility to meet its cash needs in the event of a cyclical downturn.

Other Information

The financial information presented and discussed in Management's Discussion and Analysis is derived from the Company's consolidated financial statements which are prepared in conformity with generally accepted accounting principles as established in Canada which, in the Company's case, generally conform with those established in the United States, except as explained in Note 14 of the Explanatory Financial Section.

Reference is made to page 47 of this Report for certain information on governmental and other policies and factors affecting the Company's operations and investments by non-Canadians in the Company's securities.

Consolidated Statement of Operations

Year ended December 31 (U.S. $ in thousands)	**1989**	1988	1987
Revenues			
Net sales	**$3,947,979**	$3,263,054	$1,789,469
Gain from sales of equity interests in affiliates and subsidiary (Note 2)	**64,272**	44,188	—
Other income (Note 3)	**52,208**	40,926	36,019
	4,064,459	3,348,168	1,825,488
Costs and expenses			
Cost of sales and operating expenses	**2,343,530**	1,726,610	1,356,781
Selling, general and administrative expenses	**158,624**	158,637	111,795
Research and development	**38,392**	33,083	26,984
Exploration	**55,536**	42,981	21,907
Interest expense	**138,267**	91,637	100,978
Minority interest	**44,961**	6,133	(1,007)
Currency translation adjustments	**16,274**	20,824	9,301
	2,795,584	2,079,905	1,626,739
Earnings before income and mining taxes	**1,268,875**	1,268,263	198,749
Income and mining taxes (Note 6)	**515,471**	532,836	73,508
Net earnings	**753,404**	735,427	125,241
Dividends on preferred shares	**(5,524)**	(5,846)	(11,465)
Net earnings applicable to common shares	**$ 747,880**	$ 729,581	$ 113,776
Net earnings per common share	**$ 7.11**	$ 6.92	$ 1.09

Consolidated Statement of Retained Earnings

Year ended December 31 (U.S. $ in thousands)	**1989**	1988	1987
Retained earnings at beginning of year	**$ 144,224**	$ 573,025	$ 495,818
Net earnings	**753,404**	735,427	125,241
Loss on redemption of preferred shares	**(2,675)**	(26,049)	(15,674)
Preferred dividends	**(5,524)**	(5,846)	(11,465)
Common dividends – Special ($10.00 per share)	—	(1,058,508)	—
– Regular (1989 – $.85; 1988 – $.70 and 1987 – $.20 per share)	**(89,488)**	(73,825)	(20,895)
Retained earnings at end of year	**$ 799,941**	$ 144,224	$ 573,025

The Explanatory Financial Section on pages 36 through 45 is an integral part of these statements.

Consolidated Balance Sheet

December 31 (U.S. $ in thousands)	**1989**	1988	1987
Current assets			
Cash	**$ 10,290**	$ 15,362	$ 7,965
Marketable securities, at cost (market 1989 – $112,600; 1988 – $645,000; 1987 – $28,700)	**104,747**	641,788	26,350
Accounts receivable	**543,788**	638,677	387,495
Inventories (Note 4)	**676,463**	611,376	561,692
Prepaid expenses	**14,867**	13,731	12,892
Total current assets	**1,350,155**	1,920,934	996,394
Property, plant and equipment, net (Note 5)	**2,078,361**	1,899,474	1,850,665
Other assets and deferred charges			
Investments in and advances to affiliates, on an equity basis	**41,684**	47,989	24,901
Miscellaneous investments	**88,842**	100,887	91,305
Deferred pension charges (Note 13)	**70,479**	76,391	—
Other	**35,995**	33,173	31,116
	237,000	258,440	147,322
	$3,665,516	$4,078,848	$2,994,381
Current liabilities			
Notes payable	**$ 64,841**	$ 47,354	$ 43,029
Long-term debt due within one year (Note 7)	**16,710**	14,025	30,058
Special common dividend payable (Note 9)	**—**	1,058,508	—
Accounts payable	**199,802**	135,147	101,652
Accrued payrolls and benefits	**174,475**	158,740	139,182
Accrued interest	**42,030**	44,005	47,529
Other accrued liabilities	**135,654**	156,655	108,651
Income and mining taxes payable (Note 6)	**125,291**	437,388	53,687
Total current liabilities	**758,803**	2,051,822	523,788
Other liabilities and deferred credits			
Long-term debt (Note 7)	**924,982**	673,790	810,874
Deferred income and mining taxes (Note 6)	**303,100**	288,500	198,200
Pension benefits (Note 13)	**181,954**	203,152	230,455
Minority interest	**111,319**	66,342	4,484
Other	**23,440**	27,945	32,010
	1,544,795	1,259,729	1,276,023
Redeemable Preferred Shares Series C 10% (Note 8)	**—**	2,357	31,836
Non-redeemable Preferred Shares Series B 7.85% (Note 8)	**72,603**	75,777	79,234
Common shareholders' equity			
Common shares issued and outstanding 104,573,532 shares (1988 – 105,850,823; 1987 – 104,866,647) (Notes 9 and 10)	**473,690**	470,400	449,439
Capital surplus (Note 11)	**19,231**	61,036	61,036
Retained earnings	**799,941**	144,224	573,025
Cumulative currency translation adjustments (Note 1)	**(3,547)**	13,503	—
	1,289,315	689,163	1,083,500
	$3,665,516	$4,078,848	$2,994,381

Approved by the Board of Directors: **Donald J. Phillips**
Ian McDougall

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31 (U.S. $ in thousands)	**1989**	1988	1987
Operating activities			
Net earnings	**$ 753,404**	$ 735,427	$ 125,241
Charges (credits) not affecting cash			
Depreciation	**146,405**	134,772	118,659
Depletion	**47,393**	42,184	33,843
Deferred income and mining taxes	**17,000**	94,100	34,200
Minority interest	**44,961**	6,133	(1,007)
Other – net	**(14,457)**	(1,821)	108
Decrease (increase) in non-cash working capital related to operations			
Accounts receivable	**94,889**	(251,182)	(152,107)
Inventories	**(65,087)**	(49,684)	70,421
Prepaid expenses	**(1,136)**	(839)	(519)
Accounts payable and accrued liabilities	**57,414**	97,533	40,354
Income and mining taxes payable	**(312,097)**	383,701	(5,540)
Gain from sales of equity interests in affiliates and subsidiary	**(64,272)**	(44,188)	—
Proceeds from future product shipments	**—**	—	33,892
Contributions to pension plans less than (in excess of) accruals	**2,199**	(108,319)	(4,869)
Cash provided by operating activities	**706,616**	1,037,817	292,676
Investment activities			
Capital expenditures	**(389,269)**	(228,936)	(137,942)
Proceeds from sales of equity interests in affiliates and subsidiary	**83,179**	100,000	—
Proceeds from a reduction in miscellaneous investments	**—**	—	32,000
Proceeds from disposals of property, plant and equipment	**12,666**	5,121	12,979
Other – net	**(23,927)**	(26,822)	17,337
Cash used for investment activities	**(317,351)**	(150,637)	(75,626)
Cash surplus before financing activities	**389,265**	887,180	217,050
Financing activities			
Dividends paid			
Special common	**(1,058,508)**	—	—
Regular common	**(89,488)**	(73,825)	(20,895)
Preferred	**(5,588)**	(6,577)	(12,299)
Long-term borrowings	**676,987**	11,789	110,970
Reduction of long-term debt	**(428,232)**	(146,000)	(256,339)
Net addition (reduction) to short-term debt	**20,172**	(11,708)	18,701
Common shares retired	**(49,413)**	—	—
Preferred shares redeemed	**(8,206)**	(58,985)	(58,087)
Net proceeds from common shares issued	**10,898**	20,961	10,180
Cash used for financing activities	**(931,378)**	(264,345)	(207,769)
Increase (decrease) in cash and marketable securities	**$ (542,113)**	$ 622,835	$ 9,281

The Explanatory Financial Section on pages 36 through 45 is an integral part of these statements.

Explanatory Financial Section

Note 1. Summary of Significant Accounting Policies
This summary of the major accounting policies of Inco Limited and subsidiaries is presented to assist the reader in evaluating the financial statements contained in this Report. These policies have been followed consistently in all material respects for the periods covered in the financial statements.

Principles of Consolidation The consolidated financial statements include the accounts of the Company and its subsidiaries and are prepared in conformity with generally accepted accounting principles as established in Canada which, in the Company's case, generally conform with those established in the United States, except as explained in Note 14.

Translation of Financial Statements into United States Dollars The financial statements are expressed in United States dollars using foreign currency translation procedures established by the Canadian Institute of Chartered Accountants. Prior to 1988, all of the Company's operations were classified as integrated operations for purposes of applying the translation procedures, and their functional currency was United States dollars. Effective January 1, 1988, as a result of a reorganization and change in operating objectives, the Company's alloys and engineered products businesses in the United Kingdom have been determined, for purposes of applying the translation procedures, to be self-sustaining operations, and the functional currency for these operations changed from United States dollars to pounds sterling.

For integrated operations, cash, accounts receivable, current liabilities, the liability for pension benefits and unhedged long-term debt are translated into United States dollars using year-end rates of exchange; all other assets and liabilities are translated at applicable historical rates of exchange or at rates established by related forward exchange contracts. Revenues, expenses and certain costs are translated at monthly average exchange rates except for inventoried costs, depreciation and depletion which are translated at historical rates. Realized exchange gains and losses and currency translation adjustments are included in earnings currently except for currency translation adjustments relative to long-term monetary items with a fixed and ascertainable life which are deferred and amortized on a straight-line basis over the life of the item.

For self-sustaining operations, all assets and liabilities are translated into United States dollars at year-end rates of exchange and income and expense items are translated at monthly average rates. Realized exchange gains and losses are included in earnings currently. Currency translation adjustments are included in shareholders' equity, as "Cumulative currency translation adjustments".

Inventories Inventories are stated at the lower of cost or net realizable value. Cost for metals is mainly average production or purchase cost, and for supplies is average purchase cost.

Property, Plant and Equipment Property, plant and equipment is stated at cost. Such cost in the case of the Company's mines represents related acquisition and development expenditures. Expenditures for mineral exploration are expensed as incurred.

Depreciation and Depletion Depreciation is calculated using the straight-line method and, for the nickel operations in Indonesia, the unit-of-production method, based on the estimated economic lives of property, plant and equipment. Such lives are generally limited to a maximum of 20 years and are subject to annual review. Depletion is calculated by a method which allocates mine development costs ratably to the tons of ore mined.

Income and Mining Taxes Deferred taxes are provided in recognition of timing differences that arise in reporting depreciation and other expense and revenue items for financial statement and income and mining tax purposes. Investment tax credits are accounted for by the "cost reduction" method whereby investment tax credits related to the acquisition of assets are deferred and recognized in earnings as the related assets are depreciated while those related to research and development expenses are included in earnings currently. Income taxes have not been provided on undistributed earnings of subsidiaries because remittance of such earnings would not result in any significant tax liability.

Hedge Contracts The Company periodically uses forward exchange contracts and currency swap agreements to hedge the effect of exchange rate changes on future local currency requirements and futures contracts to hedge the effect of price changes on a portion of the primary metals it sells. Gains and losses on hedge contracts are reported as a component of the related transaction.

Change in Presentation In the fourth quarter of 1989, the Company adopted for all periods presented the new accounting standard for extraordinary items issued in December 1989 by the Canadian Institute of Chartered Accountants. Adoption of this standard has the effect, for the Company, of reclassifying the utilization of prior years' tax losses, which were $56.5 million in 1989 and $44.6 million in 1988, from presentation as an extraordinary credit to a reduction of income and mining taxes in the Company's Consolidated Statement of Operations. This reclassification does not change net earnings or net earnings per common share.

Net Earnings per Common Share Net earnings per common share is calculated by dividing net earnings less preferred dividends by the weighted average number of common shares outstanding. The common stock equivalents of outstanding stock options do not dilute earnings per common share.

Note 2. Gain from Sales of Equity Interests in Affiliates and Subsidiary

During the fourth quarter of 1989, the Company sold a 30 per cent equity interest in Shimura Kako Company, Ltd. of Japan and a 26 per cent equity interest in Morgan Hydrocarbons Inc., realizing gains of $60.7 million and $3.6 million, respectively. The Company retains a 4.67 per cent equity interest in Shimura Kako Company, Ltd. but no longer has any financial interest in Morgan Hydrocarbons Inc.

During the third quarter of 1988, the Company realized a gain of $44.2 million from the sale of a 20 per cent equity interest in P.T. International Nickel Indonesia to Sumitomo Metal Mining Co., Ltd., of Japan. The Company retains an equity interest of approximately 78 per cent in P.T. International Nickel Indonesia.

Note 3. Other Income

Other income includes interest of $20,890,000 in 1989, $23,590,000 in 1988 and $5,880,000 in 1987; realized exchange gains of $6,240,000 in 1989, $1,830,000 in 1988 and $9,140,000 in 1987; and gains and losses on sales of securities, which were gains of $9,250,000 in 1989, losses of $340,000 in 1988 and gains of $5,740,000 in 1987.

Note 4. Inventories

Inventories consist of the following:

December 31 ($ in thousands)	**1989**	1988	1987
Metals, finished and in-process	**$571,703**	$519,755	$472,650
Supplies	**104,760**	91,621	89,042
	$676,463	$611,376	$561,692

Note 5. Property, Plant and Equipment

Property, plant and equipment consists of the following:

December 31 ($ in thousands)	**1989**	1988	1987
Mines and mining plants	**$1,623,053**	$1,453,422	$1,374,976
Processing facilities	**1,720,493**	1,606,670	1,563,777
Other	**339,829**	326,381	320,327
Primary metals facilities	**3,683,375**	3,386,473	3,259,080
Alloys and engineered products facilities	**519,286**	504,823	495,027
Other	**67,024**	59,962	63,626
Total property, plant and equipment	**4,269,685**	3,951,258	3,817,733
Accumulated depreciation	**1,713,093**	1,620,946	1,544,905
Accumulated depletion	**478,231**	430,838	422,163
	2,191,324	2,051,784	1,967,068
Property, plant and equipment, net	**$2,078,361**	$1,899,474	$1,850,665

In 1989, the Company began construction of facilities to implement the new technology which will allow it to reduce its sulphur dioxide emissions at its Sudbury, Ontario operations to the level required by the Government of Ontario. The major part of this project, which is expected to be fully implemented by 1994 and which involves an estimated expenditure of $357 million, of which $42 million was spent in 1989, will be invested in new oxygen flash smelting furnaces, a new acid plant, a new oxygen plant extension and additional services. These process changes will yield only a modest return on investment.

Note 6. Income and Mining Taxes

The provisions for income and mining taxes (tax relief) for the years 1987-1989 were as follows:

($ in thousands)	**1989**	1988	1987
Current taxes	**$473,971**	$481,136	$41,608
Current deferred	**24,500**	(42,400)	(2,300)
Future deferred	**17,000**	94,100	34,200
Total deferred taxes	**41,500**	51,700	31,900
Total income and mining taxes	**$515,471**	$532,836	$73,508
Canada	**$472,389**	$511,559	$82,196
United Kingdom	**21,530**	16,269	5,880
United States	**19,344**	2,608	(1,603)
Other	**2,208**	2,400	(12,965)
	$515,471	$532,836	$73,508

Earnings before income and mining taxes, by source, were as follows:

($ in thousands)	**1989**	1988	1987
Canada	**$ 970,020**	$1,007,263	$188,080
Indonesia	**161,567**	109,191	(13,565)
United Kingdom	**64,852**	46,981	34,424
United States	**44,458**	24,006	(18,347)
Other	**27,978**	80,822	8,157
Total	**$1,268,875**	$1,268,263	$198,749

Deferred taxes result from timing differences arising from transactions which enter into the determination of book income and taxable income in different reporting periods. The sources of major timing differences, and the tax effect of each, for the three years were as follows:

($ in thousands)	**1989**	1988	1987
Tax effects of timing differences for:			
Depreciation	**$13,100**	$14,700	$38,400
Pensions	**1,500**	54,800	2,900
Employee benefits	**(2,700)**	(2,200)	(1,200)
Inventories	**9,100**	(24,600)	(6,500)
Restoration of deferred taxes resulting from the utilization of net operating loss carryforwards	**30,000**	—	—
Other	**(9,500)**	9,000	(1,700)
Total	**$41,500**	$51,700	$31,900

The reconciliation between the combined federal-provincial statutory income tax rate in Canada and the effective income and mining tax rate follows:

Year ended December 31	**1989**	1988	1987
	Provision (Relief)		
Combined Canadian federal-provincial statutory income tax rate	**42.9 %**	46.4 %	50.8 %
Resource and depletion allowance	**(10.0)**	(11.6)	(18.9)
Adjusted income tax rate	**32.9**	34.8	31.9
Mining taxes	**14.3**	15.0	14.1
	47.2	49.8	46.0
Effects of losses in:			
Indonesia	**—**	—	2.6
United States	**—**	—	3.8
Utilization of prior years' tax losses	**(4.5)**	(3.5)	—
Tax rate differential	**(2.1)**	(2.6)	(11.8)
Advance Corporation Tax refund	**(0.2)**	(0.1)	(6.8)
Other	**0.2**	(1.6)	3.2
Effective income and mining tax rate	**40.6 %**	42.0 %	37.0 %

The effective tax rate had been increased by the losses incurred in 1987 by the Company's operations in Indonesia and the United States, on which no tax benefit was recognized. These operations were profitable in 1988 and 1989 and the provision for income and mining taxes therefore includes income taxes on these earnings at the statutory rate applicable in each country, offset by the recognition of tax benefits relating to prior years' tax losses, aggregating $44.6 million in 1988 for Indonesia and the United States and $56.5 million in 1989 for Indonesia. The effective tax rate has been reduced by earnings derived outside of Canada where the Company's operations are taxed at lower rates than those which prevail in Canada. Additionally, the effective tax rate was also reduced in 1987 by recognition of additional tax relief attributable to losses incurred in Canada in prior years. Taxes were also reduced by refunds of $1.2 million in 1989, $1.8 million in 1988 and $13.6 million in 1987 of Advance Corporation Tax under United Kingdom treaty provisions covering dividends paid to non-residents.

Under the "cost reduction" method, investment tax credits reduced costs and expenses by $9.2 million in 1989 ($7.2 million in 1988 and $5.2 million in 1987). At December 31, 1989, the Company had approximately $25 million of investment tax credits in Canada and the United States which will be amortized over periods not exceeding 12 years.

The cumulative tax effect of timing differences relating to items of a non-current nature is shown separately as deferred income and mining taxes of $303.1 million in the Consolidated Balance Sheet at December 31, 1989. The cumulative tax effect of timing differences relating to items of a current nature of $13.1 million at December 31, 1989 is included as a reduction in the current liability for income and mining taxes payable.

Losses and unutilized investment tax credits relative to the Company's nickel operations in Indonesia totalling $104 million and $57 million, respectively, can be carried forward indefinitely.

Note 7. Long-Term Debt

The Company's long-term debt consists of the following (the applicable weighted average interest rates and repayment periods as at December 31, 1989 are shown in parentheses):

December 31 ($ in thousands)	**1989**	1988	1987
Inco Limited			
5.75% Swiss Franc Bonds (1996)	**$103,457**	$103,457	$103,457
6.5% Deutsche Mark Bonds (1991)	**44,393**	42,293	47,745
6.85% U.S. $ Debentures (1993)	**20,985**	29,390	41,969
8.625% Cdn. $ Debentures (1991)	**13,157**	19,033	18,196
9.0% U.S. $ Debentures (1992)	**48,964**	52,725	55,860
9.25% Cdn. $ Debentures (1990)	**15,763**	21,426	19,816
9.5% ECU Notes (1994)	**64,400**	64,400	64,400
9.75% U.S. $ Notes (1996)	**99,000**	99,000	99,000
9.875% U.S. $ Debentures (2000-2019)	**150,000**	—	—
11.0% U.S. $ Notes (1992)	**74,335**	75,000	75,000
12.375% U.S. $ Debentures (2002-2010)	**47,046**	47,046	51,046
12.75% Sterling Notes (1993)	**61,010**	61,010	61,010
15.75% Sterling Unsecured Loan Stock (2006)	**45,001**	45,001	45,001
U.S. $ Floating Rate Notes	**—**	—	100,000
U.S. $ Revolving loans (9.3%) (1993-1995)*	**140,000**	—	—
P.T. International Nickel Indonesia			
Export & supplier credits	**—**	12,404	36,341
Other Indebtedness			
(9.3%) (1990-2001)	**14,181**	15,630	22,091
	941,692	687,815	840,932
Long-term debt due within one year	**16,710**	14,025	30,058
Long-term debt	**$924,982**	$673,790	$810,874

* Interest based on London Interbank Offered Rate.

The average effective interest rate on long-term debt at December 31, 1989 was 10.2%. Approximately 15% of such debt carries interest rates that are subject to periodic adjustments based on market interest rates. The Company has currency swap agreements with financial institutions which effectively convert the 200 million Swiss Franc 5¾% Bonds and the 70 million ECU 9½% Notes into U.S. dollar obligations at annual interest costs of 10.2% and 10.5%, respectively. In 1987, the Company entered into interest rate swap agreements with financial institutions based on a principal amount of $85 million. These agreements, which expire in 1994, require the Company to make floating rate interest payments based on the London Interbank Offered Rate, which averaged 9.7% during 1989, in exchange for fixed interest payments at 7.9%. Interest expense on long-term debt for the years 1989, 1988 and 1987 was $125,004,000, $80,793,000 and $97,234,000, respectively. After reflecting forward exchange hedging and currency swap contracts, 92% of the long-term debt is effectively payable in U.S. dollars.

The Company has two related committed bank credit facilities aggregating $1,000 million. Each of these facilities is divided into two tranches and bears interest, when drawn, at floating rates. One facility designates up to $250 million as Tranche A and a further $250 million as Tranche B. The other facility designates up to $150 million as Tranche A and a further $350 million as Tranche B. Each facility provides that so long as advances under only Tranche A are outstanding, the Company will be required to maintain a Consolidated Debt to Net Worth Ratio (as defined therein) not to exceed 55:45. Once Tranche B advances become outstanding, each facility provides that the Company will no longer be bound by the Consolidated Debt to Net Worth Ratio covenant and will instead be required to maintain a minimum Tangible Net Worth (as defined therein) of $200 million, to limit Aggregate Indebtedness (as defined therein) to $2,000 million, and to maintain an Interest Coverage Ratio (as defined therein) of not less than 1.75 to 1. In January 1989, the Company borrowed $500 million from the first facility with $250 million under Tranche A and $250 million under Tranche B. These borrowings together with available cash and marketable securities were used to pay the special cash dividend of $1,059 million on January 9, 1989. By December 31, 1989, these borrowings had been reduced to $140 million, all under Tranche A. At December 31, 1989, the Consolidated Debt to Net Worth Ratio was 41:59, Tangible Net Worth was $1,455 million and Aggregate Indebtedness was $1,007 million; for the year ended December 31, 1989, the Interest Coverage Ratio was 11.8 to 1. During 1989, the Company incurred fees of $1,390,000 to compensate banks for undrawn credit facilities.

At December 31, 1989 long-term debt maturities and sinking fund requirements for each of the five years through 1994 are: 1990 – $16,710,000; 1991 – $58,662,000; 1992 – $127,015,000; 1993 – $119,211,000; 1994 – $101,616,000.

Note 8. Preferred Shares

At December 31, 1989, the authorized preferred shares of the Company, which are issuable in series, consisted of 30,000,000 shares with no par value.

The 7.85% cumulative Series B Preferred Shares are not redeemable at the option of the holders. These shares have general voting rights, were issued at $25 (Cdn.) per share and are redeemable, at the option of the Company, at $25 (Cdn.) per share. The Company is required to make all reasonable efforts to repurchase 150,000 Series B Preferred Shares annually if such shares are available at a price not greater than $25 (Cdn.) per share. In April 1989, the Company announced a Normal Course Issuer Bid to purchase up to 230,000 of its Series B Preferred Shares over the following twelve months. During 1989, as a result of the repurchase obligation and the Normal Course Issuer Bid, the Company retired 139,200 Series B Preferred Shares at a cost of $2,693,000. The $481,000 gain on retirement has been credited directly to Retained Earnings.

The 10% Cumulative Redeemable Commodity-Indexed Series C Preferred Shares, which had general voting rights, were issued at $25 (Cdn.) per share, contained a commodity-indexed exchange feature which gave each holder the right to receive the cash equivalent of specified amounts of either nickel or copper and were redeemable after July 1, 1989 at the Company's option at the greater of the issue price or the amount determined under the commodity-indexed exchange feature. In June 1989, the Company advised holders of its intention to redeem the remaining outstanding shares, including accrued and unpaid dividends, on August 1, 1989. During the period from January 1, 1989 through July 31, 1989, the Company redeemed 63,231 shares as a result of holders exercising their rights under the commodity-indexed exchange feature, and on August 1, 1989, the Company redeemed the then remaining 59,224 shares or provided for the redemption thereof, at an aggregate cost of $5,513,000 including a premium of $3,156,000 which was charged to Retained Earnings. During 1987 and 1988, as a result of holders exercising their rights under the commodity-indexed exchange feature, 1,946,164 shares were redeemed at a cost of $54,642,000 in 1987 and 1,531,381 shares were redeemed at a cost of $56,285,000 in 1988. The shares redeemed in 1987 and 1988 were carried at $66,943,000, based on the Canadian dollar exchange rate prevailing when the shares were issued in 1984. The differences arising on redemption, $17,178,000 in 1987 and $26,806,000 in 1988, were also charged directly to Retained Earnings.

Changes in the Series B Preferred Shares and Series C Preferred Shares for the years 1987 – 1989 are shown below.

	Series B Preferred Shares		*Series C Preferred Shares*	
	Number of shares	$ in thousands	Number of shares	$ in thousands
December 31, 1986	3,698,487	$84,183	3,600,000	$ 69,300
Shares redeemed	—	—	(1,946,164)	(37,464)
Shares purchased	(217,100)	(4,949)	—	—
December 31, 1987	3,481,387	79,234	1,653,836	31,836
Shares redeemed	—	—	(1,531,381)	(29,479)
Shares purchased	(151,600)	(3,457)	—	—
December 31, 1988	3,329,787	75,777	122,455	2,357
Shares redeemed	—	—	(122,455)	(2,357)
Shares purchased	(139,200)	(3,174)	—	—
December 31, 1989	3,190,587	$72,603	—	$ —

Note 9. Common Shares

At December 31, 1989, the authorized common shares of the Company consisted of an unlimited number of shares with no par value.

In April 1989, the Company announced a Normal Course Issuer Bid to purchase up to 2,000,000 of its Common Shares, representing about 1.9% of the shares then outstanding, with purchases to be made at market prices on the Toronto, Montreal and New York stock exchanges over the following twelve months. The principal reason for the

Common Share repurchase program was to avoid the dilution which would otherwise result from the issuance of Common Shares under the Company's Optional Stock Dividend Program and its employee share award and incentive plans. In October 1989, the Company announced a new Normal Course Issuer Bid to supersede this 2,000,000 common share repurchase program. Under the new program, the Company plans to purchase, subject to business considerations and market conditions, an additional 5,000,000 Common Shares, representing about 4.8% of the shares outstanding in October 1989, with purchases to be made at market prices on the Toronto, Montreal and New York stock exchanges over the following twelve months.

During 1989, the Company acquired 2,148,800 Common Shares under these share repurchase programs, 1,848,800 under the program announced in April 1989 and 300,000 under the successor program announced in October 1989. Of this total amount, 1,698,800 Common Shares were purchased for cancellation at an aggregate cost of $49,413,000, of which $7,608,000 was charged to Common Shares, based on the average per-share amount in the Common Share account at the purchase date, and the balance of $41,805,000 was charged to Capital Surplus. The remaining 450,000 Common Shares, which were purchased at a cost of $13,347,000, are being held by a trustee to be issued to employees in February 1990 under the Company's Employee Share Award Plan.

Under the Inco Optional Stock Dividend Program, common shareholders may elect to receive Common Shares in lieu of cash dividends.

Changes in the Common Shares for the years 1987 – 1989 are shown below.

	Common Shares	
	Number of shares	$ in thousands
December 31, 1986	104,174,848	$439,259
Options exercised	218,956	3,012
Shares issued in lieu of cash dividends	221,326	3,655
Shares sold under:		
Exploration program	236,200	2,934
Share Purchase Plan	15,317	269
Adjustment for 1986 Investment Tax Credits	—	310
December 31, 1987	104,866,647	449,439
Options exercised	450,024	8,167
Shares issued in lieu of cash dividends	420,891	11,252
Shares sold under:		
Exploration program	106,312	1,358
Share Purchase Plan	6,949	184
December 31, 1988	105,850,823	470,400
Options exercised	192,007	3,880
Shares issued under incentive plan	19,530	590
Shares issued in lieu of cash dividends	185,810	5,746
Shares retired under Repurchase Program	(1,698,800)	(7,608)
Shares sold under Share Purchase Plan	12,467	383
Recapitalization antidilution adjustments	11,695	299
December 31, 1989	104,573,532	$473,690

At a Special Meeting of Shareholders held on December 9, 1988, shareholders approved the Company's Recapitalization Plan which had been adopted by the Board of Directors, subject to shareholder approval, on October 3, 1988. The Recapitalization Plan consisted of the payment of a special cash dividend of $10 per Common Share and a Shareholder Rights Plan. The special cash dividend was declared on December 9, 1988, and was paid on January 9, 1989 to shareholders of record on December 22, 1988. The liability for the special cash dividend, totalling $1,058.5 million, was shown separately as "Special common dividend payable" in the Consolidated Balance Sheet at December 31, 1988.

On January 17, 1989, the Company received a proposal from a shareholder requesting that the Board of Directors of the Company terminate the Shareholder Rights Plan. In an advisory vote, at the Company's Annual Meeting held on April 19, 1989, shareholders rejected, by a margin of 71% to 29% of the shares voted, this shareholder proposal.

Under the Shareholder Rights Plan, one Common Share Purchase Right was issued on October 3, 1988 in respect of each outstanding Common Share. The Rights expire on October 3, 1998 unless terminated earlier by the Company's Board of Directors. The effect of the Rights Plan is to require anyone who seeks to acquire 20 per cent or more of the Company's voting shares to negotiate with the Board of Directors to terminate the Rights issued under the Plan. Until the earlier of the date that a person or group acquires 20 per cent or more of the Company's outstanding Voting Shares or the tenth day (or such later date as the Board of Directors may fix by amendment of the Plan) following the announcement of a tender or exchange offer or takeover bid that will result in such person or group owning 20 per cent or more of the Voting Shares, the Rights will be evidenced by the Common Shares, will automatically trade with the Common Shares and will not be exercisable. If (i) any person or group acquires 20 per cent or more of the Voting Shares or (ii) the Company consolidates with, amalgamates with or into or enters into an arrangement with any person or group in which the Common Shares are changed or if the Company shall sell or transfer assets aggregating more than 50 per cent of assets or generating more than 50 per cent of operating income or cash flow, then separate Rights certificates will be distributed. Each Right (excluding in certain circumstances Rights beneficially owned by a 20 per cent shareholder or certain transferees thereof, which Rights become void) will entitle the holder, on payment of the exercise price of $100 per share (subject to certain antidilution adjustments as specified in the Rights Plan), to purchase Common Shares of the Company, in the circumstances in (i) above, or equity securities of the acquiror, in the circumstances in (ii) above, at a 50 per cent discount. In certain circumstances, the Board of Directors may, at its option and upon payment of the exercise price, issue or deliver debt or equity securities or other assets (or any combination thereof) having a value equal to twice the exercise price or, without charge,

issue or deliver debt or equity securities or other assets (or any combination thereof) having a value equal to the exercise price.

In December 1988, a shareholder instituted a lawsuit challenging the legality of the Shareholder Rights Plan. This action does not claim any damages against the Company.

Note 10. Stock Option Plans and Employee Share Award Plan

The Company's 1989 stock option plan, which has a term of five years, authorizes the granting of options to purchase up to 2,000,000 Common Shares at prices not less than 100% of their market value on the day the option is granted. The Company's 1979 and 1984 stock option plans each authorized the granting of options to key employees to purchase up to 1,000,000 Common Shares, also at prices not less than 100% of their market value on the day the option was granted. The 1979 and 1984 plans were terminated in 1984 and 1989, respectively, except as to options and share appreciation rights then outstanding. The Company's stock option plans provide that no shares subject to option shall be purchasable after ten years from the date of grant and also include an "antidilution" provision to protect the optionholder for stock splits or other significant capital changes. This provision was applied to options outstanding on December 22, 1988 in order to reflect the special cash dividend of $10 per common share payable to shareholders of record on that date. For certain optionholders, the antidilution adjustment increased the number of options outstanding and reduced the related option price. For the remaining optionholders, to avoid possible adverse tax treatment, the antidilution adjustment for options issued after February 15, 1984 is made in the form of cash and common shares on the earlier of January 8, 1992 or when the options are exercised. At December 31, 1989, outstanding options for 482,385 shares, as amended for the antidilution adjustment, also carry share appreciation rights. In 1989, the Company also issued 19,530 Common Shares under the Company's incentive plan which provides for the awarding of incentive compensation in the form of cash, shares or share units.

Changes during the year 1989 in options outstanding are summarized as follows:

	Number of Shares		
	1989 Plan	1984 Plan	1979 Plan
Outstanding at December 31, 1988	—	237,501	179,636
Options granted at $30.00 a share	996,000	182,500	—
Options exercised at average option price of $16.38 a share	(37,125)	(88,067)	(66,815)
Options terminated	(16,000)	(63,524)	(63,651)
Outstanding at December 31, 1989	942,875	268,410	49,170
Available for grant at December 31, 1989	1,020,000	—	—
Exercisable as at December 31, 1989	452,875	182,160	49,170

At December 31, 1989, the average option price per share of options outstanding was $13.43 (range $7.09 – $18.58) under the 1979 plan and $23.04 (range $8.54 – $30.00) under the 1984 plan, after giving effect to the antidilution adjustment, and was $30.00 under the 1989 plan. The expiration dates of options outstanding at December 31, 1989 ranged from October 5, 1990 to February 16, 1997. At December 31, 1989 there were 195 employees participating in the plans.

The Company's Employee Share Award Plan authorized the awarding of up to 1,000,000 common shares of the Company, over a two-year period, to all eligible employees of Inco Limited and its wholly owned subsidiaries. The plan provided for an initial award in February 1989 to full-time employees on December 31, 1988 who had at least one year of service with the Company and an additional award in February 1990 to employees similarly eligible. The number of shares awarded to each eligible employee depends on the employee's length of service with the Company and, in the case of the shares to be awarded in February 1990, also depends, in part, on the number of shares the employee retained from those awarded in February 1989. A total of 442,956 shares were awarded to employees in 1989 as a result of the initial stage of this program and about 450,000 additional shares will be awarded in February 1990. The Company purchases these shares in the open market on behalf of the Employee Share Award Plan. The cost of the initial distribution was $13.1 million. At December 31, 1989, a liability of $13.4 million has been recorded for the shares to be issued in February 1990.

A modified employee share award program will continue to remain in effect and common shares will be awarded in February 1991 to full-time employees on December 31, 1990 who have at least one year of service with the Company at that time, provided the Company achieves a return on year-end common shareholders' equity of at least 15 per cent for 1990 and provided further that an eligible employee owns, at December 31, 1990, shares equal to at least 80 per cent of the total shares awarded to that employee under the Employee Share Award Plan in February 1989 and February 1990. About 300,000 shares could be awarded in 1991 under the program.

Note 11. Capital Surplus

The balance in Capital Surplus at January 1, 1989 arose from transactions recorded, primarily in 1930 and prior years, in the Company's Common Shares. During 1989, as explained in Note 9, the Company purchased for cancellation 1,698,800 Common Shares for an aggregate cost of $49.4 million. Of this amount, $7.6 million was charged to Common Shares, based on the average per-share amount in the Common Shares account at the purchase date, and the balance of $41.8 million was charged to Capital Surplus, reducing Capital Surplus from $61.0 million at December 31, 1988 to $19.2 million at December 31, 1989.

Note 12. Financial Data by Business Segment

Financial data by business segment and geographic area, for the years 1989, 1988 and 1987 follow ($ in millions):

Data by Business Segment	*Primary metals*			*Alloys and engineered products*			*Other business*			*Eliminations*			*Total*		
	1989	1988	1987	**1989**	1988	1987	**1989**	1988	1987	**1989**	1988	1987	**1989**	1988	1987
Net sales to customers	**$3,218**	2,686	1,358	**$ 695**	552	418	**$ 35**	25	13	**$ –**	–	–	**$3,948**	3,263	1,789
Intersegment sales	**207**	137	49	**–**	–	–	**10**	7	4	**(217)**	(144)	(53)	**–**	–	–
Total net sales	**$3,425**	2,823	1,407	**$ 695**	552	418	**$ 45**	32	17	**$(217)**	(144)	(53)	**$3,948**	3,263	1,789
Operating earnings (loss)	**$1,360**	1,385	332	**$ 94**	48	(12)	**$ 19**	1	2	**$ (22)**	(46)	1	**$1,451**	1,388	323
Non-operating expenses*													**(182)**	(120)	(124)
Earnings before income and mining taxes													**$1,269**	1,268	199
Capital expenditures	**$ 341**	198	101	**$ 41**	30	35	**$ 7**	1	2	**$ –**	–	–	**$ 389**	229	138
Depreciation and depletion	**$ 163**	147	125	**$ 27**	25	23	**$ 4**	5	5	**$ –**	–	–	**$ 194**	177	153
Identifiable assets at December 31	**$2,697****	2,613	2,223	**$ 681**	610	545	**$ 97**	104	84	**$ (74)**	(73)	(24)	**$3,401**	3,254	2,828
Other assets													**265**	825	166
Total assets at December 31													**$3,666**	4,079	2,994

Data by Geographic Area	*Canada*			*United States*			*Europe*			*Other*			*Total after eliminations*		
	1989	1988	1987	**1989**	1988	1987	**1989**	1988	1987	**1989**	1988	1987	**1989**	1988	1987
Net sales to customers	**$ 634**	562	326	**$1,148**	954	544	**$1,241**	956	574	**$ 925**	791	345	**$3,948**	3,263	1,789
Sales between geographic areas	**2,343**	1,842	852	**49**	42	24	**55**	33	12	**19**	3	1	**–**	–	–
Total net sales	**$2,977**	2,404	1,178	**$1,197**	996	568	**$1,296**	989	586	**$ 944**	794	346	**$3,948**	3,263	1,789
Operating earnings (loss)	**$1,076**	1,141	295	**$ 63**	36	(18)	**$ 69**	54	26	**$ 263**	210	21	**$1,451**	1,388	323
Identifiable assets at December 31	**$1,730**	1,762	1,446	**$ 573**	537	465	**$ 413**	411	303	**$ 865****	863	776	**$3,401**	3,254	2,828

* Includes interest expense, general corporate income and expenses, equity in earnings of affiliates, minority interest and unallocated currency translation adjustments.

** Includes assets of $649 million relating to the Company's nickel operations in Indonesia.

The Company's business is organized around two principal product groups: primary metals and alloys and engineered products. The Company's principal primary metals are nickel and copper. Wrought nickel, high-nickel alloys in rolling mill forms, and forgings are the Company's major alloys and engineered products. Other business includes the Company's venture capital program, metals reclamation operations, and mining equipment operations.

Other assets consist of corporate assets, principally cash, securities, deferred pension charges and certain receivables and fixed assets.

The Company's intersegment sales are generally made at approximate prices used for sales to unaffiliated customers. Sales between geographic areas are generally made at prevailing market prices, except that sales of primary metals from Canada to other primary metals affiliates are net of discounts. Geographic area – Canada net sales to customers includes exports of $151 in 1989 (1988 – $127; 1987 – $69). Geographic area – Canada total net sales includes exports to the United States of $870 in 1989 (1988 – $720; 1987 – $334) and exports to Europe of $1,118 (1988 – $827; 1987 – $419). Geographic area – United States net sales to customers includes exports of $28 in 1989 (1988 – $20; 1987 – $14). Geographic area – Other net sales to customers includes sales to affiliated companies as follows: in Japan – Shimura Kako Company, Ltd. – $233 in 1989 (1988 – $190; 1987 – $84) and Tokyo Nickel Company, Ltd. – $350 in 1989 (1988 – $310; 1987 – $118); in Taiwan – Taiwan Nickel Refining Corporation – $100 in 1989 (1988 – $119; 1987 – $52); in Korea – Korea Nickel Corporation $54 in 1989.

Note 13. Retirement Benefits

The Company has defined benefit pension plans covering essentially all employees. Benefits for these plans are based primarily on either years of service and employees' final average pay or a stated amount for each year of service. Pension costs are calculated and funded based on annual actuarial estimates, except that funding is subject to limitations under applicable tax regulations. Plan assets consist principally of cash, equity securities and fixed income securities. Past service costs associated with plan amendments are amortized to pension expense over the average remaining service life of existing employees. Pension expense for defined benefit plans totalled $52,144,000 in 1989, $20,993,000 in 1988 and $9,779,000 in 1987. The increase in pension expense in 1989 compared with 1988 reflects the continuation and full year impact of the improvements in retirement benefits to a significant number of the Company's employees during 1988 and the cost-of-living adjustments provided, also during 1988, for most of the Company's pensioners. The past service costs associated with these 1988 improvements aggregated $185.6 million. Pension expense for 1989 also reflects an estimated increase of $23.0 million in the Company's projected benefit obligation resulting from the inclusion in pensionable earnings of bonuses paid to staff employees under the Company's earnings bonus and management incentive plans. The Company also improved retirement benefits for its employees in the United Kingdom during 1989 and for its hourly employees in Huntington and its staff employees located in the United States with effect from January 1, 1990; the past service costs associated with these improvements were $7.1 million and $5.9 million, respectively.

Pension expense included the following components:

($ in thousands)	**1989**		1988		1987	
Service cost – benefits earned during the year		**$29,053**		$ 22,084		$ 21,067
Interest cost on projected benefit obligation		**94,185**		75,716		62,993
Return on assets – actual	**$(185,678)**		$(88,095)		$(37,958)	
– unrecognized gain (loss)	**108,999**	**(76,679)**	21,512	(66,583)	(20,647)	(58,605)
Amortization of net asset at January 1, 1986		**(17,627)**		(17,627)		(17,627)
Amortization of deferred net (gains) losses		**6,657**		(1,052)		254
Amortization of unrecognized prior service costs		**15,847**		8,455		245
Settlement loss		**708**		—		1,452
Total defined benefit pension expense		**52,144**		20,993		9,779
Total defined contribution pension expense		**7,740**		4,085		—
Total pension expense		**$59,884**		$ 25,078		$ 9,779

The funded status of the Company's defined benefit pension plans was as follows:

December 31 ($ in thousands)	**1989**		1988		1987	
	Plans Where Assets Exceed Accumulated Benefits	**Plans Where Accumulated Benefits Exceed Assets**	Plans Where Assets Exceed Accumulated Benefits	Plans Where Accumulated Benefits Exceed Assets	Plans Where Assets Exceed Accumulated Benefits	Plans Where Accumulated Benefits Exceed Assets
Plan assets at market value	**$482,981**	**$ 680,962**	$376,713	$ 600,631	$363,423	$ 433,681
Projected benefits based on employment service to date and present pay levels:						
Vested	**294,191**	**724,896**	219,605	639,285	167,602	479,019
Nonvested	**66,484**	**114,555**	48,748	112,112	39,951	85,908
Accumulated benefit obligation	**360,675**	**839,451**	268,353	751,397	207,553	564,927
Additional amounts related to compensation increases	**91,924**	**22,580**	79,810	27,384	62,403	29,880
Total projected benefit obligation	**452,599**	**862,031**	348,163	778,781	269,956	594,807
Plan assets in excess of (less than) projected benefit obligation	**$ 30,382**	**$(181,069)**	$ 28,550	$(178,150)	$ 93,467	$(161,126)
Comprised of:						
Credits (charges) to future operations:						
Balance of January 1, 1986 net asset	**$109,171**	**$ 41,663**	$124,714	$ 43,747	$138,081	$ 48,007
Investment and actuarial gains (losses)	**20,755**	**(612)**	788	16,270	17,589	(9,646)
Prior service costs	**(55,824)**	**(133,450)**	(49,526)	(143,186)	(2,829)	(6,701)
Currency translation adjustments	**15,254**	**(5,090)**	17,085	(3,836)	14,974	(1,679)
Pension liability at December 31	**(58,974)**	**(146,470)**	(64,511)	(159,532)	(74,348)	(191,107)
Deferred pension charges at December 31	**—**	**62,890**	—	68,387	—	—
	$ 30,382	**$(181,069)**	$ 28,550	$(178,150)	$ 93,467	$(161,126)

Future indexing of post-age 65 pensions for existing employees covered by the Company's Ontario Pension Plan was provided, in 1988, as part of the defined benefit plan improvements. Also during 1988, the Company initiated defined contribution plans (side fund arrangements) for employees and pensioners covered by the Ontario Pension Plan to provide for future indexing of pre-age 65 pensions for existing employees who retire prior to age 65 and to provide for five indexation adjustments of pensions, one of which was granted in 1989, for those pensioners who retired prior to January 1, 1988. After an initial contribution of $8.4 million, which is being amortized to expense over the average remaining service life of existing employees, monthly contributions are made based on the number of hours worked by current employees. Pension expense for defined contribution plans totalled $7,740,000 in 1989 and $4,085,000 in 1988. The unamortized balance of the initial contribution at December 31, 1989, $7.5 million, is included in deferred pension charges.

The pension liability, aggregating $205 million at December 31, 1989, consists of a current liability of $23 million representing amounts to be funded in 1990 and $182 million recorded as a long-term liability for pension benefits. Included in the long-term liability is $128 million of unamortized reversions of surplus pension funds which will be credited to pension expense over 9 years as part of the amortization of the unrecognized balance of the January 1, 1986 net asset. Deferred pension charges of $63 million at December 31, 1989 resulted from contributions in excess of accruals, largely as a result of advance contributions in 1988, aggregating $83 million, which were made to improve the funded position of the Ontario Pension Plan following implementation of plan improvements.

The projected benefit obligation was determined using an assumed discount rate of 8% and assumed long-term rates of compensation increase, where applicable, ranging from 3% to 5%. The assumed long-term rate of return on plan assets is 8%.

The Company provides certain health care and life insurance benefits for retired employees. Substantially all employees in Canada, the United States and the United Kingdom may become eligible for these benefits upon retirement from the Company. The cost of these benefits, which are generally provided through insurance companies, are expensed when incurred. Such costs approximated $18 million in 1989, $16 million in 1988 and $13 million in 1987.

Note 14. Differences Between Canadian and United States Generally Accepted Accounting Principles

United States accounting practices relating to foreign currency translation, which are set forth in Statement of Financial Accounting Standards No. 52, are not entirely compatible with Canadian accounting practices which the Company follows and which are described in Note 1. Under United States practices, where the functional currency is United States dollars, all currency translation adjustments related to assets and liabilities are included in earnings currently whereas Canadian practices for integrated operations require that currency translation adjustments related to long-term monetary items with a fixed and ascertainable life be deferred and amortized over the life of the item. Deferred income and mining taxes and the Series C Preferred Shares (while outstanding) are translated at year-end rates of exchange under United States practices rather than historical rates of exchange which are required by Canadian practices. Under United States practices, the Series C Preferred Shares are also adjusted to reflect the premium which would have been paid by the Company had the outstanding shares been redeemed as a result of the holders thereof exercising their right, under the commodity-indexed exchange feature, to receive the cash equivalent of specified amounts of either nickel or copper. This adjustment and any actual premiums paid on redemptions under the commodity-indexed exchange feature of the Series C Preferred Shares, together with the currency translation adjustments for the Series C Preferred Shares, are accounted for as preferred dividends in calculating earnings per share under United States practices.

United States accounting standards for pension costs, which are set forth in Statement of Financial Accounting Standards Nos. 87 and 88, are also not entirely compatible with the Canadian pension accounting standards adopted by the Company with effect from January 1, 1986. Coincident with the adoption of the United States standards for United States reporting purposes, also with effect from January 1, 1986, unamortized reversions of surplus pension funds are included in earnings to the extent that they exceeded the unrecognized net obligation at the date of adoption ($163.3 million); under Canadian practices, the Company amortizes such reversions over the average remaining service life of existing employees. United States practices also require, effective for the Company in 1989, the recognition of a minimum additional liability in the amount of the excess of the Company's unfunded accumulated benefit obligation over the recorded pension liability; an equal amount is recognized as either an intangible pension asset or as a separate component of common shareholders' equity with the intangible pension asset limited to the unrecognized prior service costs. At December 31, 1989, the minimum additional pension liability would have been $157.9 million, the intangible pension asset would have been $151.2 million and the excess pension liability over unrecognized prior service costs of $6.7 million would have been recognized as a charge to common shareholders' equity.

The Company's 1988 and 1989 results, as reported under United States practices, include extraordinary credits of $38.2 million and $56.5 million from utilization of prior years' tax losses in Indonesia, whereas, as explained in Note 1, new Canadian practices require that credits from the utilization of prior years' tax losses be used to reduce income and mining taxes. The Company's 1988 income and mining taxes, as reported under Canadian practices, include a credit, aggregating $44.6 million, from utilization of prior years' tax losses in Indonesia and the United States. Under United States practices, all prior years' tax losses of the Company's United States operations had been utilized with the inclusion in earnings of the pension fund reversions discussed in the preceding paragraph. Accordingly, the Company's 1988 results, as reported under United States practices, include an extraordinary credit of $38.2 million from utilization of prior years' tax losses in Indonesia.

In addition, gains from the retirement of long-term debt would be classified as extraordinary items under United States practices.

The following table compares the Company's results reported under Canadian practices with those that would be reported under United States practices, together with the cumulative effect on selected balance sheet accounts. Quarterly results are unaudited.

	Canada			*United States*		
($ in millions)	**1989**	1988	1987	**1989**	1988	1987
Net earnings (loss)						
First quarter	**$276.3**	$125.9	$ (5.0)	**$277.9**	$113.1	$ (18.9)
Second quarter	**195.7**	190.2	13.8	**196.6**	185.7	16.3
Third quarter	**129.3**	200.3	41.4	**121.1**	198.9	43.0
Fourth quarter	**152.1**	219.0	75.0	**142.8**	211.1	65.4
Year	**$753.4**	$735.4	$125.2	**$738.4**	$708.8	$105.8
Earnings per common share	**$ 7.11**	$ 6.92	$ 1.09	**$ 6.97**	$ 6.56	$ 0.68
December 31	**1989**	1988	1987	**1989**	1988	1987
Deferred income and mining taxes	**$303.1**	$288.5	$198.2	**$339.0**	$323.0	$212.6
Liability for pension benefits	**182.0**	203.2	230.5	**64.9**	73.1	87.4
Preferred Shares Series C	**—**	2.4	31.8	**—**	6.1	51.1
Retained earnings	**799.9**	144.2	573.0	**878.4**	233.8	673.7
Additional pension liability	**$ —**			**$157.9**		
Intangible pension asset	**—**			**151.2**		
Excess pension liability over unrecognized prior service costs	**$ —**			**$ 6.7**		

The following table reconciles results as reported under Canadian practices with those that would be reported under United States practices:

($ in millions)	**1989**	1988	1987
Net earnings – Canadian practices	**$753.4**	$735.4	$125.2
Increased pension expense	**(13.0)**	(13.0)	(9.5)
Increased currency translation losses	**(6.8)**	(9.8)	(18.3)
Reduced other income	**—**	—	(0.9)
(Increased) reduced income and mining taxes			
Reversal of utilization of prior years' tax losses	**(56.5)**	(44.6)	—
Other	**4.8**	2.6	8.6
Net earnings before extraordinary credits – United States practices	**681.9**	670.6	105.1
Extraordinary credits:			
Utilization of prior years' tax losses	**56.5**	38.2	—
Gain on retirement of long-term debt, net of taxes	**—**	—	0.7
Net earnings – United States practices	**738.4**	708.8	105.8
Dividends on preferred shares – United States practices	**(4.9)**	(17.1)	(34.9)
Net earnings applicable to common shares – United States practices	**$733.5**	$691.7	$ 70.9
Earnings per common share:			
Before extraordinary credits	**$6.43**	$6.20	$0.67
Extraordinary credits	**0.54**	0.36	0.01
Earnings per common share – United States practices	**$6.97**	$6.56	$0.68

In connection with the Consolidated Statement of Cash Flows, the following supplemental disclosures are required by Statement of Financial Accounting Standard No. 95:

($ in millions)	**1989**	1988	1987
Interest paid	**$140.2**	$95.2	$97.6
Income and mining taxes paid	**$803.7**	$28.1	$58.4

In December 1988, the effective date for adoption of the new United States accounting standard for income taxes, Statement of Financial Accounting Standard No. 96 (SFAS 96), was deferred for one year. In October 1989, the effective date for adoption was deferred for an additional two years. For the Company, adoption is now required on January 1, 1992. This new United States standard is not compatible with existing Canadian and United States practices. In November 1988, the Canadian Institute of Chartered Accountants issued an exposure draft covering a proposed new Canadian accounting standard for income taxes but has not yet issued final recommendations. This proposed new Canadian standard is not compatible with existing Canadian and United States practices and it is not entirely compatible with the new United States standard. In view of the uncertainties associated with the final standards to be adopted and the timing thereof, the Company has deferred its analysis of the potential impact of both the new United States standard and the proposed new Canadian standard. Under SFAS 96, utilization of prior years' tax losses would be reflected as a reduction of the provision for income and mining taxes rather than as an extraordinary credit.

AUDITORS' REPORT

Price Waterhouse

To the Shareholders of Inco Limited:

We have examined the consolidated financial statements and explanatory financial section appearing on pages 33 through 45 of this report. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Inco Limited at December 31, 1989, 1988 and 1987 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles as established in Canada applied on a consistent basis.

Price Waterhouse

Toronto, Ontario
New York, New York
February 14, 1990

SUPPLEMENTARY FINANCIAL INFORMATION

Quarterly Financial Information

($ in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1989					
Net sales	$1,117,482	$1,066,222	$848,658	$915,617	$3,947,979
Cost of sales and operating expenses	$ 533,536	$ 630,428	$542,232	$637,334	$2,343,530
Earnings before income and mining taxes	$ 480,860	$ 338,389	$217,043	$232,583	$1,268,875
Net earnings	$ 276,261	$ 195,782	$129,240	$152,121	$ 753,404
Net earnings per common share	$ 2.60	$ 1.84	$ 1.23	$ 1.44	$ 7.11
Dividends per common share	$ .20	$ .20	$ .20	$ .25	$ .85
1988					
Net sales	$ 676,218	$ 830,825	$784,480	$971,531	$3,263,054
Cost of sales and operating expenses	$ 382,584	$ 397,487	$432,225	$514,314	$1,726,610
Earnings before income and mining taxes	$ 220,994	$ 351,530	$335,466	$360,273	$1,268,263
Net earnings	$ 125,854	$ 190,266	$200,304	$219,003	$ 735,427
Net earnings per common share	$ 1.18	$ 1.80	$ 1.88	$ 2.06	$ 6.92
Dividends per common share	$ .10	$ .20	$ .20	$ 10.20	$ 10.70

Note: Year 1989 results reflect a gain of $61 million from the sale of a 30 per cent equity interest in Shimura Kako Company, Ltd. of Japan, and a gain of $3 million from the sale of a 26 per cent equity interest in Morgan Hydrocarbons Inc., both recorded in the fourth quarter. Year 1989 results also reflect costs of $13 million for shares to be issued in 1990 under the Employee Share Award Plan: first quarter $3 million; second quarter $3 million; third quarter $4 million; fourth quarter $3 million. Year 1989 results also reflect a $56 million reduction in income and mining taxes from utilization of prior years' tax losses as follows: first quarter $17 million; second quarter $16 million; third quarter $12 million; fourth quarter $11 million.

Year 1988 results reflect $30 million in expenses, recorded in the fourth quarter, for the recapitalization and employee share award plans; additional provisions for Manitoba mining taxes of $23 million resulting from legislation enacted in the third quarter of 1988 which was retroactive to the beginning of the year: third quarter – $17 million including $11 million which applies to the first six months; fourth quarter – $6 million; and a $9 million writedown, recorded in the third quarter, as a result of a physical inventory of scrap metals. Year 1988 results also reflect a gain of $44 million, recorded in the third quarter, arising from the sale of a 20 per cent equity interest in P.T. International Nickel Indonesia. Year 1988 results also reflect a $45 million reduction in income and mining taxes from utilization of prior years' tax losses as follows: first quarter $6 million; second quarter $9 million; third quarter $13 million; fourth quarter $17 million.

Investor Information

Shareholders At year-end 1989, of the shareholders having general voting rights (the Common and the Series B shareholders), 64 per cent had addresses in Canada, 26 per cent in the United States and 10 per cent elsewhere. Of these voting shares, Canadian residents of record held 49 per cent, United States residents of record 47 per cent, and residents of record in other countries 4 per cent.

Dividends On February 14, 1990, the Board of Directors declared a regular quarterly dividend of 25 cents a common share, payable March 20 to shareholders of record on February 26. In addition to the special cash dividend of $10 paid on January 9, 1989, the Company paid total regular dividends per common share of 85 cents in 1989 and 70 cents in 1988. The Board of Directors on February 14 also declared a quarterly dividend on the Company's 7.85% Series B Preferred Shares, payable March 1 to shareholders of record on February 22.

Dividends are paid to Canadian residents in Canadian currency unless any such shareholder, by written notification to Shareholder Services, requests payment in United States currency.

Shareholder Investment Plans Under the Company's Optional Stock Dividend Program, common shareholders have the right to elect to receive a stock dividend, valued at 100 per cent of market price of the Company's Common Shares, in lieu of a cash dividend. The Program provides common shareholders with a simple and convenient method of acquiring additional Common Shares without payment of brokerage commissions or service charges.

Under the Company's Share Purchase Plan, common shareholders are entitled to make cash payments to purchase Common Shares of the Company at prevailing market prices. There are no service charges or brokerage commissions for Common Shares purchased under the Plan. Common shareholders can contribute from $30 to $7,000 (Cdn.) or from $30 to $5,200 (U.S.) per calendar quarter to purchase Common Shares from the Company on scheduled quarterly dividend payment dates. Those shareholders who wish to participate in the Plan or the Optional Stock Dividend Program or who desire additional information should write to Shareholder Services, Inco Limited, at either the Company's Toronto or New York address.

Shareholder Rights Plan At a Special Meeting of Shareholders held on December 9, 1988 shareholders approved the Company's Recapitalization Plan which included a Shareholder Rights Plan unanimously approved by the Board of Directors on October 3, 1988.

Under the Shareholder Rights Plan, one Common Share Purchase Right was issued on October 3, 1988 in respect of each outstanding Common Share. Each Right entitles the registered holder to purchase from the Company one Common Share at the exercise price of $100 per share, subject to certain antidilution adjustments as specified in the Rights Plan. The Rights Plan was implemented to enable all holders of Common Shares to realize full and fair value for their investment in the Company in the event of a takeover, by in effect requiring anyone who seeks to acquire 20 per cent or more of the Company's voting shares to negotiate with the Board of Directors to terminate the rights issued under the Plan. The Plan does not prevent a takeover; rather, it is designed to encourage anyone seeking to acquire the Company to make an offer that would be considered by the Board of Directors to represent full and fair value for all holders of Common Shares.

Pursuant to the Rights Plan, until the earlier of the date a person or group acquiring 20 per cent or more of the Company's outstanding Voting Shares or the tenth day (or such later date as the Board of Directors may fix by amendment of the Plan) following the announcement of a tender or exchange offer or takeover bid that will result in such person or group owning 20 per cent or more of the Voting Shares, the Rights will be evidenced by the Common Shares, will automatically trade with the Common Shares and will not be exercisable. Thereafter, separate Rights certificates will be distributed. If (i) any person or group acquires 20 per cent or more of the Voting Shares or (ii) the Company consolidates with, amalgamates with or into or enters into an arrangement with any person or group in which the Common Shares are changed or if the Company shall sell or transfer assets aggregating more than 50 per cent of assets or generating more than 50 per cent of operating income or cash flow, then each Right (excluding in certain circumstances Rights beneficially owned by a 20 per cent shareholder or certain transferees thereof, which Rights become void) will entitle the holder, on payment of the exercise price, to purchase Common Shares of the Company, in the circumstances in (i) above, or equity securities of the acquiror, in the circumstances in (ii) above, at a 50 per cent discount. In certain circumstances, the Board of Directors may, at its option and upon payment of the exercise price, issue or deliver debt or equity securities or other assets (or any combination thereof) having a value equal to twice the exercise price or, without charge, issue or deliver debt or equity securities or other assets (or any combination thereof) having a value equal to the exercise price.

In December 1988, a shareholder instituted a lawsuit challenging the legality of the Shareholder Rights Plan. This action does not claim any damages against the Company.

Other Information Canadian federal legislation generally requires a 15 per cent withholding from dividends paid to common shareholders resident in the United States, the United Kingdom and most western European countries. Similarly, depending upon applicable tax treaties, dividends paid to other non-residents of Canada are subject to a withholding tax at a maximum rate of 25 per cent. Interest payable on the Company's debt securities held by non-Canadian residents may also be subject to Canadian withholding tax, depending upon the terms and provisions of such securities. All stock dividends are treated as ordinary taxable dividends. Accordingly, stock dividends paid to non-residents are subject to withholding tax at the same rate as cash dividends. Under present legislation in the United States, the Company is not subject to the backup withholding rules, which would require withholding at a rate of 20 per cent on dividends and interest paid to certain United States persons who have not provided the Company with a taxpayer identification number.

The Company's Common Shares and its 7.85% Series B Preferred Shares have general voting rights. At shareholders' meetings, each holder of these securities is entitled to one vote for each share held and there are no cumulative voting provisions. At December 31, 1989, the number of Series B Preferred shareholders totalled 1,030, principally Canadian residents.

Subject to the preferential rights of the holders of the Company's Preferred Shares, the holders of Common Shares are entitled to such dividends as may be declared by the Board of Directors out of funds legally available therefor. No dividend or other distribution on the Common Shares shall be paid, and no Common Shares shall be acquired for value, unless dividends on all outstanding Preferred Shares have been paid for all past quarterly periods. There are no charter or contractual provisions expressly limiting either the amount of cash dividends which the Company may declare and pay on its Common Shares or the right of non-residents of Canada to hold or vote any of the Common Shares of the Company.

There are certain restraints on the holding of Inco's voting equity securities. The Company's Series B Preferred Shares were issued and sold in underwritten public offerings in Canada only and no market for such shares exists outside Canada. The Investment Canada Act (the "Act") limits the number of shares of a Canadian corporation which may be acquired by a non-Canadian without approval under the Act. The effect of the Act is to prohibit the acquisition of control by a non-Canadian of certain Canadian businesses, such as the Company, unless such acquisition is found by the responsible Minister of the Government of Canada to be of net benefit to Canada.

Through subsidiaries and affiliates, the Company's operations are conducted in numerous countries; some $1,400 million of the Company's consolidated total assets are located outside Canada and the United States. Accordingly, operations are subject to various governmental policies or regulations and changes therein and the risks associated with doing business in some overseas locations.

Market Price Range for Common and Preferred Shares

Year ended December 31	**1989**	1988*
	Common Shares	
New York Stock Exchange (Composite transactions)		
First quarter	**$\$32\frac{5}{8} - 25\frac{5}{8}$**	$\$25\frac{3}{4} - 17\frac{3}{8}$
Second quarter	**$32\frac{1}{2} - 26\frac{3}{4}$**	$34\frac{1}{4} - 24\frac{1}{4}$
Third quarter	**$37\frac{5}{8} - 27\frac{1}{4}$**	$35\frac{1}{8} - 25\frac{3}{8}$
Fourth quarter	**$35\frac{1}{4} - 25\frac{3}{4}$**	$33\frac{3}{4} - 22\frac{7}{8}$
Toronto Stock Exchange (Canadian dollars)		
First quarter	**$\$39\frac{1}{8} - 30\frac{5}{8}$**	$\$31\frac{7}{8} - 22\frac{1}{8}$
Second quarter	**$38\frac{1}{2} - 31\frac{3}{4}$**	$41\frac{1}{4} - 29\frac{3}{4}$
Third quarter	**$44\frac{1}{4} - 32\frac{5}{8}$**	$42\frac{1}{2} - 31\frac{3}{8}$
Fourth quarter	**$41\frac{1}{2} - 30$**	$40\frac{1}{2} - 27\frac{1}{4}$
	Series B Preferred Shares	
First quarter	**$\$22\frac{1}{2} - 21\frac{1}{8}$**	$\$23 - 20\frac{3}{4}$
Second quarter	**$22\frac{1}{2} - 22$**	$22\frac{7}{8} - 21\frac{3}{4}$
Third quarter	**$23\frac{1}{2} - 22\frac{1}{4}$**	$23 - 22$
Fourth quarter	**$23\frac{1}{2} - 22\frac{5}{8}$**	$23 - 21\frac{1}{8}$
	*Series C Preferred Shares***	
First quarter	**$\$70 - 58\frac{1}{2}$**	$\$63\frac{3}{4} - 34$
Second quarter	**$56\frac{1}{2} - 45$**	$68\frac{1}{2} - 56\frac{5}{8}$
Third quarter	**$45 - 39$**	$56\frac{1}{8} - 47$
Fourth quarter	– –	$66 - 42$

* The market price ranges for common shares for 1988 reflect actual share prices as reported for each day's trading. They have not been restated to give effect to the $10 special cash dividend. Accordingly, the fourth quarter 1988 low market price of $\$22\frac{7}{8}$ (Cdn. $\$27\frac{1}{4}$) reflects the decline after the shares commenced trading ex-dividend on December 16, 1988.

** The Company redeemed the outstanding Series C Preferred shares on August 1, 1989.

Corporate Officers

Donald J. Phillips
Chairman, President and Chief Executive Officer

Executive Vice-Presidents

W.R.O. Aitken **I. David Balchin** **Walter Curlook** **Ian McDougall**

Vice-Presidents

Malcolm C. Bell
Technology

Scott M. Hand
General Counsel and Secretary
Strategic Planning and Business Development

Anthony E. Munday
Comptroller

Terrence Podolsky
Exploration

Anthony J. Sabatino
Treasurer

Peter B. Salathiel
Primary Metals Marketing

Michael D. Sopko
Human Resources

J. Stuart Warner
Occupational and Environmental Health

Principal Regional Officers

Kevin H. Belcher
Vice-President
Inco Limited
General Manager, Inco Limited
Japan Branch and President
Inco Pacific Limited

Samuel Goldberg
President
Inco United States, Inc.

Operations

William P. Clement
President
Ontario Division

Lorne M. Ames
President
Manitoba Division

James D. Guiry
President and
Managing Director
P.T. International Nickel
Indonesia

Brian K. Davison
Production Director
Inco Europe Limited

David J. Anderson
President
International Nickel Inc.

Ivor Kirman
Marketing Director
Inco Europe Limited

Claudio Barsotti
President
Inco Exploration
and Technical Services Inc.

Martin H. Robinson
President
Inco Gold Inc.

John O. Allen
Vice-President and
General Manager
Inco Alloys International, Inc.

Edward R. Burrell
Vice-President, Marketing and Planning
Inco Alloys International, Inc.

Donald E. DeBord
Vice-President, Technology
Inco Alloys International, Inc.

John Smith
Director and General Manager
Inco Alloys Limited

Ian L. Dillamore
Managing Director
Inco Engineered Products Limited

Auditors
Price Waterhouse
Toronto and New York

Counsel
Osler, Hoskin & Harcourt
Toronto

Sullivan & Cromwell
New York

Transfer Agents and Registrars
The Royal Trust Company
Toronto, Calgary, Montreal
and London, England

The Bank of New York
New York, New York

Directors

Board of Directors
The Board of Directors consists of 15 members of whom three are officers of the Company. In 1989, the Board held 11 meetings. The activities of the Board are supported by its various committees.

Executive Committee
The Executive Committee, which held five meetings during 1989, consists of Mr. Phillips, Chairman, and Messrs. Gordon, Light, McDougall, G.T. Richardson and Thomson. During intervals between meetings of the Board, the Executive Committee, with certain exceptions, has all the powers vested in the Board.

Audit Committee
The Audit Committee, which held three meetings during 1989, consists of Mr. Crawford, Chairman, and Messrs. Aird, Baird and R.J. Richardson. This committee meets with the Company's financial management personnel, its internal auditors and its independent auditors at least three times a year to review and appraise the Company's financial reporting practices and procedures, the adequacy of the system of internal accounting control, the planned scope of examinations by both auditing groups and their findings and recommendations. It also reviews the Company's financial statements and monitors various other internal control policies.

Nominating Committee
The Nominating Committee, which held two meetings during 1989, consists of the same Directors who comprise the Executive Committee and has the function of recommending to the Board nominees for election as Directors.

Management Resources and Compensation Committee
This committee, which held five meetings during 1989, consists of Mr. Gordon, Chairman, and Messrs. Light, G.T. Richardson and Thomson. This committee advises and consults with the Chairman of the Board and makes recommendations to the Board on the remuneration of senior executives of the Company and on the Company's various incentive plans. The committee also reviews the management development programs and the succession plans relating to senior management.

Pension Committee
The Pension Committee, which held two meetings during 1989, consists of Mr. Bélanger, Chairman, Mrs. Erola, and Messrs. Glavin and Hantho. This committee advises the Board regarding the financial aspects of the pension programs of the Company and its subsidiaries, including actuarial assumptions, the adequacy of funding and the implementation of sound investment of pension funds.

Directors
William F. Glavin, President, Babson College, was elected to Inco's Board of Directors on February 14, 1990.

(Term expires 1990)

Michel Bélanger
Chairman
National Bank of Canada
Montreal, Quebec

Purdy Crawford, Q.C.
Chairman, President and
Chief Executive Officer
Imasco Limited (consumer
products and services
corporation)
Montreal, Quebec

The Honourable Judith A. Erola
President
Pharmaceutical Manufacturers
Association of Canada
Ottawa, Ontario

William F. Glavin
President
Babson College
Wellesley, Massachusetts

Walter F. Light, O.C.
Retired Chairman
Northern Telecom Limited
(manufacturer of
telecommunications equipment)
Mississauga, Ontario

Ian McDougall
Executive Vice-President
Inco Limited
New York, New York

George T. Richardson
President
James Richardson & Sons,
Limited
(financial, grain and
management holding company)
Winnipeg, Manitoba

Richard M. Thomson
Chairman and
Chief Executive Officer
The Toronto-Dominion Bank
Toronto, Ontario

(Term expires 1991)

The Honourable John Black Aird, O.C., Q.C.
Senior Partner
Aird & Berlis
Toronto, Ontario

Charles F. Baird
Former Chairman and
Chief Executive Officer
Inco Limited
Washington, D.C.

Walter Curlook
Executive Vice-President
Inco Limited
Toronto, Ontario

J. Peter Gordon, O.C.
Former Chairman, Stelco Inc.
(producer of iron, primary steel
and finished steel products)
Toronto, Ontario

Charles H. Hantho
President and Chief
Executive Officer
Dominion Textile Inc.
(textile manufacturing)
Montreal, Quebec

Donald J. Phillips
Chairman, President and
Chief Executive Officer
Inco Limited
Toronto, Ontario

Robert J. Richardson
Robert J. Richardson-
Consultants
Montreal, Quebec

INCO WORLDWIDE

Principal Executive Office

Royal Trust Tower
Toronto-Dominion Centre
Toronto, Ontario
M5K 1N4
(416) 361-7511

Other Executive Office

One New York Plaza
New York, New York 10004
U.S.A.
(212) 612-5500

Primary Metals

Principal Operating Units

Ontario Division
Copper Cliff, Ontario
Port Colborne, Ontario

Manitoba Division
Thompson, Manitoba

P.T. International Nickel
Indonesia
Soroako, Indonesia

Clydach Refinery
Clydach, Swansea, Wales

Acton Refinery
London, England

International Nickel
Océanie S.A.
Noumea, New Caledonia

Inco Gold Inc.
Toronto, Ontario

Principal Sales Offices

Inco Limited

Toronto, Ontario
(416) 361-7511

International Nickel Inc.

Saddle Brook, New Jersey
U.S.A.
(201) 843-8600

Pittsburgh, Pennsylvania
U.S.A.
(412) 281-9546

Upland, California
U.S.A.
(714) 946-2111

Inco Europe Limited

London, England
(44) 1-235-2040

International Nickel France, S.A.
Paris, France
(331) 42 89 26 67

International Nickel
G.m.b.H.
Düsseldorf, West Germany
(49) 211-32 91 77

International Nickel
Services (U.K.) Limited
Indian Liaison Office
New Delhi, India
(91) 11 660060

Inco Limited, Japan Branch

Tokyo, Japan
(81) 3-245-0621

Inco Pacific Limited

Hong Kong
(852) 521-2333

Taipei, Taiwan
Republic of China
(886) 2 503-0022

International Nickel Océanie S.A.

Paris, France
(331) 42 89 26 69

Alloys and Engineered Products

Alloys

Principal Operating Units

Inco Alloys International, Inc.
Huntington, West Virginia,
U.S.A.

Inco Alloys Limited
Hereford, England

Additional Operating Units

Burnaugh, Kentucky, U.S.A.

Pittsboro, North Carolina, U.S.A.

Elkhart, Indiana, U.S.A.

Welding Products Company
Newton, North Carolina, U.S.A.

Wiggin Steel & Alloys
Birmingham, England

Greengrove Welding Wires Ltd.
Stratford-upon-Avon, England

Sales Offices

United States

Inco Alloys International, Inc.
Marietta, Georgia
(404) 971-4570

Chicago, Illinois
(708) 255-0888

Cleveland, Ohio
(216) 464-8705

Houston, Texas
(713) 440-6600

Huntington, West Virginia
(304) 526-5100

Franklin, Massachusetts
(508) 520-3801

Upland, California
(714) 946-0803

Wilmington, Delaware
(302) 529-1818

Canada

Inco Alloys Canada Limited
Toronto, Ontario
(416) 361-7808

Europe

Inco Alloys International
Hereford
(44) 432-276461

Northern England
(44) 61 236 5438

Southern England
(44) 21 456 1213

Inco Alloys International
Paris, France
(331) 47 76 4251

Düsseldorf, West Germany
(49) 211 37 90 78

Milan, Italy
(39) 2 65 950 82

Pacific

Inco Alloys Pte. Ltd.
Singapore
(65) 222-3988

Melbourne, Australia
(61) 3 267 3666

Inco Pacific Limited
Taipei, Taiwan
Republic of China
(886) 2 503-0022

Japan

Daido Inco Alloys Ltd.
50% owned

Tokyo
(81) 3-504-0921

Osaka
(81) 6-202-4951

Engineered Products

Inco Engineered Products Limited
Birmingham, England
(44) 21 454-4871

Anodic Machining Technologies Limited
Axminster, England
(44) 297-34567

Doncasters Blaenavon Limited
Blaenavon, South Wales
(44) 495 790345

Doncasters Monk Bridge Limited
Leeds, England
(44) 532 446262

Doncasters Sheffield Limited
Sheffield, England
(44) 742 349444

Inco Engineered Products, Inc.
Chicago, Illinois, U.S.A.
(708) 640-0600

Inco Vacuum Coatings Limited
West Bromwich, England
(44) 21 611-1115

Incoform Bramah Limited
Sheffield, England
(44) 742-483981

Renston Engineering Ltd.
Redditch, England
(44) 527 501310

SETTAS S.A.
Jumet, Belgium
(32) 71 34 4488

Storms Forge, Inc.
Springfield, Massachusetts
(413) 785-1801

Turbo Products International, Inc.
Ivoryton, Connecticut, U.S.A.
(203) 767-0161

Turbo Products (UK) Limited
Kirkby-in-Ashfield, England
(44) 623-751816

Other Subsidiaries and Units

Inco Exploration and Technical Services Inc.
Toronto, Ontario

Inco Specialty Powder Products
Toronto, Ontario

Continuous Mining Systems Limited
Copper Cliff, Ontario
(705) 682-0623

American Copper & Nickel Company, Inc.
Wheat Ridge, Colorado, U.S.A.

Western Aggregates, Inc.
Boulder, Colorado, U.S.A.
(303) 499-1010

Inco United States, Inc.
New York, New York, U.S.A.

Novamet Specialty Products Corporation
Wyckoff, New Jersey, U.S.A.
(201) 891-7976

Inco Venture Capital Management
New York, New York, U.S.A.

The International Metals Reclamation Company, Inc.
Ellwood City, Pennsylvania
U.S.A.
(412) 758-5515

LaQue Center for Corrosion Technology, Inc.
Wrightsville Beach
North Carolina, U.S.A.
(919) 256-2271

Mineração Serras do Sul Limitada
Rio de Janeiro, Brazil

Exmibal
Guatemala, Central America

Environmental Impact Policy

Inco is committed to the concept of sustainable development, which requires balancing the need for economic growth with good stewardship in the protection of human health and the natural environment.

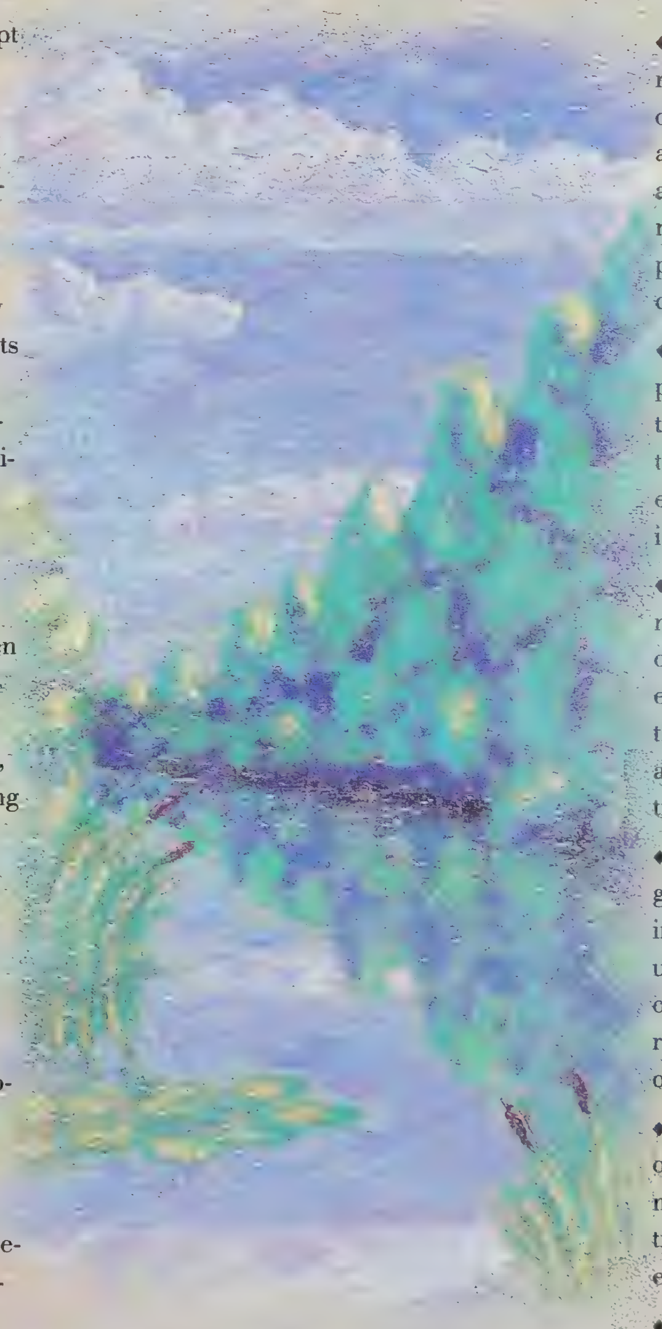
Inco will strive to minimize any potentially adverse impacts of its operations and products on its employees, customers, the general public and the natural environment, and will seek to not only meet, but if possible, surpass the standards set by relevant legislation, by diligent application of technically proven and economically feasible environmental protection measures throughout exploration, mining, processing and decommissioning phases of operations.

To implement this policy, Inco will endeavour to:

♦ assess, plan, construct and operate projects or facilities in compliance with all applicable legislation providing for the protection of the environment, employees, and the public.

♦ in the absence of legislation, apply cost-effective best management practices to advance environmental protection and to minimize risks to occupational and public health and safety and the environment.

♦ implement site-specific programs, which conform with both governmental regulations and corporate policies, to minimize risk.



♦ maintain active, continuing, monitoring programs, to evaluate operational risks to human safety and health, and the environment and apply sound risk management principles to ensure compliance with government and company requirements.

♦ foster research directed at expanding scientific knowledge of the impact of industry activities on the environment, of environment/economy linkages, and of improved processing technologies.

♦ work pro-actively with government and the public in the development of equitable, cost-effective and realistic laws for the protection of the environment and the enhancement of occupational health and safety.

♦ enhance communications with governments, employees and involved publics to promote understanding of the nature of our business activities and any relevant risks associated with our operations or products.

♦ review annually for the Board of Directors, company performance with respect to occupational health and safety and the environment.

♦ provide shareholders with information on environmental and occupational health and safety matters through the Annual Report.

Donald J. Phillips

Donald J. Phillips,
Chairman, President and
Chief Executive Officer

INCO

Stronger For Our Experience

INCO

Printed in Canada

INCO

Notice of Annual Meeting of Shareholders

April 18, 1990

Proxy Circular and Statement

INCO LIMITED
To be held at 11:00 a.m.
Wednesday, April 18, 1990
The Imperial Room,
Main Lobby
Royal York Hotel
Toronto, Ontario

Inco

Donald J. Phillips
Chairman, President and
Chief Executive Officer

March 9, 1990

Dear Shareholder:

The Annual Meeting of Shareholders will be held at the Royal York Hotel, in Toronto, Ontario on Wednesday, April 18, 1990 at 11:00 a.m. The formal Notice of Meeting and Proxy Circular and Statement, which are contained in the following pages, outline the actions to be taken by Shareholders at the meeting.

I sincerely hope that you will be able to attend the meeting. However, if you are not planning to be present, I would appreciate your taking a few minutes now to complete, sign and return your proxy in the enclosed postage-paid envelope. Regardless of the number of shares you may own, your vote is important.

Thank you for your continued interest in our Company.

Yours very truly,

Donald J. Phillips

INCO LIMITED P. O. Box 44, Royal Trust Tower, Toronto-Dominion Centre, Toronto, Canada M5K 1N4

INCO

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of INCO LIMITED will be held in The Imperial Room, Main Lobby, Royal York Hotel, Toronto, Ontario on Wednesday, April 18, 1990, at the hour of eleven o'clock in the morning, for the purposes of:

(1) receiving the report of the Directors and financial statements for 1989;

(2) electing Directors for the term expiring in 1992;

(3) appointing Auditors of the Company;

(4) considering, if presented at the meeting, a Shareholder proposal which is opposed by the Directors of the Company; and

(5) transacting such other business as may properly be brought before the meeting.

If you cannot be present in person, **please complete, sign, date and return the accompanying form of proxy** to the Company in the enclosed envelope, postage prepaid, as soon as possible.

By Order of the Board of Directors,

Scott M. Hand

Scott M. Hand
Vice-President, General Counsel & Secretary

Dated: March 9, 1990

February 15, 1990

PROXY CIRCULAR AND STATEMENT

This Proxy Circular and Statement is furnished in connection with **the solicitation by the Board of Directors of INCO LIMITED of proxies** to be used at the Annual Meeting of Shareholders of the Company to be held on Wednesday, April 18, 1990 in The Imperial Room, Main Lobby, Royal York Hotel, Toronto, Ontario for the purposes set forth in the foregoing Notice of Meeting. Commencing on or about March 9, 1990, this Proxy Circular and Statement and a form of proxy will be mailed to Shareholders then of record and also to those who thereafter become Shareholders of record up to and including March 12, 1990. The Company has its principal executive offices at Royal Trust Tower, Toronto-Dominion Centre, Toronto, Ontario M5K 1N4 and also has executive offices at One New York Plaza, New York, New York 10004. **All dollar amounts in this Proxy Circular and Statement are stated in United States dollars.**

If the accompanying form of proxy is executed and returned, the proxy may nevertheless be revoked pursuant to subsection 148(4) of the Canada Business Corporations Act by an instrument in writing executed by the Shareholder or his attorney authorized in writing, as well as in any other manner permitted by law. Any such instrument revoking a proxy must either be deposited at one of the above executive offices of the Company no later than the close of business on the last business day preceding the date of the meeting or any adjournment thereof, or be deposited with the chairman of the meeting on the date of the meeting or any adjournment thereof. If the instrument of revocation is deposited with the chairman on the date of the meeting or any adjournment thereof, the instrument will not be effective with respect to any matter on which a vote has already been cast pursuant to the proxy.

Only holders of record at the close of business on March 12, 1990 of Common Shares and 7.85% Preferred Shares Series B ("Series B Preferred Shares") will be entitled to vote, as a single class, at the meeting or adjournments thereof, except that a person who has acquired shares subsequent to March 12, 1990 will be entitled to vote such shares upon making a written request to that effect by April 9, 1990 to the Secretary of the Company at one of the executive offices referred to above and establishing that such person owns such shares. As of February 15, 1990, 104,139,643 Common Shares and 3,180,887 Series B Preferred Shares are outstanding, each of which carries one vote. Such numbers of voting shares do not include fractional share interests (aggregating 11,938 Common Shares) which cannot be voted.

The form of proxy will include any whole Common Shares which are held by the Company on a Shareholder's behalf under the Company's Optional Stock Dividend Program, the Share Purchase Plan and the Employee Share Award Plan.

ELECTION OF DIRECTORS

The Company's Board of Directors presently has 15 members. At the meeting eight Directors are to be elected, each to hold office for the term expiring at the Annual Meeting in 1992. Unless the Shareholder signing the accompanying form of proxy specifies that the proxy be withheld from voting on the election of all Directors, or except to the extent that such Shareholder specifies that authority to vote for any individual nominee be withheld, the persons named in the form of proxy intend to vote the proxy for the election of the following persons, all of whom are Directors whose terms of office expire at the meeting: Michel Bélanger, Purdy Crawford, Judith A. Erola, William F. Glavin, Walter F. Light, Ian McDougall, George T. Richardson and Richard M. Thomson. Each of the nominees has been recommended to the Board of Directors by the Nominating Committee for election by the Shareholders.

The terms of office of the other seven Directors who are not nominees for election expire at the Annual Meeting in 1991.

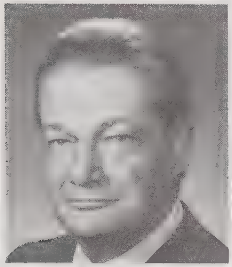
The Board of Directors is not aware of any circumstances that will cause any nominee to be unable to serve as a Director. However, should a nominee be unable to serve, the persons named in the accompanying form of proxy reserve the right to vote for another person of their choice in such nominee's place, unless the Shareholder signing the form of proxy has specified that the proxy be withheld from voting on the election of all Directors.

The information given herein as to shares owned by Directors of the Company refers to Common Shares of the Company beneficially owned by such Directors as of February 15, 1990, other than those subject to options. As of February 15, 1990, Directors of the Company hold options exercisable within 60 days to purchase the following numbers of Common Shares: Mr. Phillips 37,500, Mr. Curlook 18,500, Mr. McDougall 18,500 and Mr. Baird 50,868. No Director beneficially owns any Series B Preferred Shares. Each Director has sole voting or investment power as to shares owned.

As of February 15, 1990, 310,609 Common Shares, or less than one-third of one percent of the outstanding Common Shares of the Company, and 253,186 Common Shares subject to options exercisable within 60 days, are beneficially owned by the Directors and Officers as a group. No Officer beneficially owns any Series B Preferred Shares.

Information as to beneficial ownership, not being within the knowledge of the Company, has been furnished by the respective Directors and Officers.

NOMINEES FOR ELECTION



Michel Bélanger Director since 1988
Shares owned — 2,400

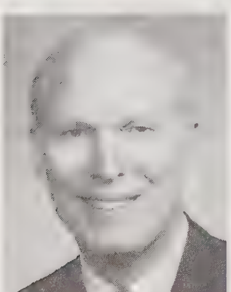
Mr. Bélanger, 60, is Chairman of the Board and a Director of National Bank of Canada. He was Chairman of the Board and Chief Executive Officer from 1984 to August 1, 1989. He is also a Director of Canadian Pacific Limited, Canadian Pacific Forest Products, Du Pont Canada Inc., Hydro-Quebec, Inter-City Gas Corporation, Munich Reinsurance Company of Canada, The Great Lakes Reinsurance Company and Sears Canada Inc.

Purdy Crawford, Q.C. Director since 1985
Shares owned — 2,569

Mr. Crawford, 58, is Chairman, President and Chief Executive Officer and a Director of Imasco Limited, a major Canadian consumer products and service corporation with operations in Canada and the United States. He joined Imasco Limited in 1985 as President and Chief Operating Officer and became President and Chief Executive Officer in 1987. He is also a Director of The Conference Board of Canada, CT Financial Services Inc., Dominion Textile Inc., Sydney Steel Corporation and Nova Scotia Resources Limited, and Chairman of the Board of Regents and Member of the Executive Committee of the Board of Regents of Mount Allison University.

The Honourable Judith A. Erola, P.C. Director since 1987
Shares owned — 100

Mrs. Erola, 56, is President of the Pharmaceutical Manufacturers Association of Canada, a national trade association representing 70 research-based pharmaceutical companies. Mrs. Erola joined the Association in 1987. Prior to that time, she was marketing and government relations consultant for the Ontario Editorial Bureau from 1985 to 1987.

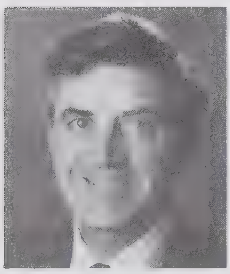


William F. Glavin Director since February 14, 1990
Shares held — 200

Mr. Glavin, 57, is President of Babson College, a position he has held since July 1989. Prior to that time, Mr. Glavin was Vice Chairman and a Director of Xerox Corporation. He is also a Director of Norton Company and State Street Boston Corporation.

Walter F. Light, O.C., O.ONT. Director since 1980
Shares owned — 200

Mr. Light, 66, is Retired Chairman and a Director of Northern Telecom Limited, a manufacturer of telecommunications equipment, a position he has held since 1985. He is also a Director of Air Products & Chemicals, Inc., Moore Corporation Limited, The Procter & Gamble Company, Shell Canada Limited, NewTel Enterprises Limited, RockCliffe Research and Technology Inc., Royal Bank of Canada and The SNC Group Inc.



Ian McDougall Director since 1977
Shares owned — 35,096

Mr. McDougall, 59, is an Executive Vice-President of the Company, a position he has held since 1982, and has corporate responsibility for finance and certain administrative functions. He is also a Director of The Bank of Nova Scotia.

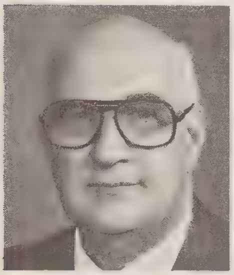
George T. Richardson Director since 1968
Shares owned — 22,808

Mr. Richardson, 65, is President and Managing Director of James Richardson & Sons, Limited, a financial, grain and management holding company, a position he has held since 1966. He is Chairman of Richardson Greenshields of Canada Limited. He is also a Director of Canada Packers Inc., Du Pont Canada Inc. and United Canadian Shares Limited.

Richard M. Thomson Director since 1984
Shares owned — 1,000

Mr. Thomson, 56, is Chairman, Chief Executive Officer and a Director of The Toronto-Dominion Bank, a position he has held since 1978. He is also a Director of The Cadillac Fairview Corporation Limited, CGC Inc., Eaton's of Canada, S. C. Johnson and Son Ltd., The Prudential Insurance Company of America, Union Carbide Canada Limited and The Thomson Corporation Ltd.

DIRECTORS WHOSE TERMS OF OFFICE EXPIRE AT THE ANNUAL MEETING IN 1991



The Honourable John B. Aird, O.C., O.ONT., Q.C. Director since 1986
Shares owned — 500

Mr. Aird, 66, is senior partner of the law firm Aird & Berlis in Toronto. He is a Director and Chairman of The Consumers' Gas Company Ltd., and a Director and Vice-Chairman of Power Corporation of Canada. He is also a Director of Algoma Central Railway, The Molson Companies Limited, Reed Stenhouse Companies Limited, Economic Investment Trust Limited, Nova Corporation of Alberta and Mercedes-Benz Canada Inc.

Charles F. Baird Director since 1974
Shares owned — 27,400

Mr. Baird, 67, is former Chairman and Chief Executive Officer of the Company. He was Chairman of the Board from April 1987 to September 1987, and Chairman and Chief Executive Officer from 1980 to April 1987. He is also a Director of Bank of Montreal and Aetna Life and Casualty Company and is a trustee of Bucknell University and the Logistics Management Institute.

Walter Curlook Director since 1989
Shares owned — 45,399

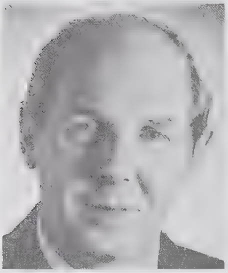
Dr. Curlook, 60, is an Executive Vice-President of the Company, a position he has held since 1982, and has corporate responsibility for primary metals production, exploration and mineral resource development and technology. He is also Chairman of Inco Gold Inc. and a Director of The Great-West Life Assurance Company.

J. Peter Gordon, O.C. Director since 1984
Shares owned — 200

Mr. Gordon, 69, is former Chairman of Stelco Inc., a steel producer manufacturing iron, primary steel and finished steel products. He is also a Director of Bank of Montreal, Bell Canada Enterprises Inc., The Molson Companies Limited, Stelco Inc., Sun Life Assurance Company of Canada and Northern Telecom Limited. He previously served as a Director of Inco from 1973 to 1979.

Charles H. Hantho Director since 1989
Shares owned — 100

Mr. Hantho, 58, is President, Chief Executive Officer and a Director of Dominion Textile Inc., a position he has held since July 1, 1989. He joined Dominion Textile Inc. in January 1989 as President and Chief Operating Officer. Prior to joining Dominion Textile Inc. he was Chairman and Chief Executive Officer of C-I-L Inc. from 1982 to August 1988. He is also a Director of Dofasco Inc.



Donald J. Phillips Director since 1980
Shares owned — 53,736

Mr. Phillips, 60, is Chairman, President and Chief Executive Officer of the Company and has held that post since October 1987. He was President and Chief Operating Officer from 1982 to April 1987, when he became President and Chief Executive Officer. He is also a Director of ENSERCH Corporation and The Toronto-Dominion Bank.

Robert J. Richardson Director since 1989
Shares owned — 500

Dr. Richardson, 61, is a consultant and a company Director. He was Executive Director of Canada's National Conference on Technology & Innovation from 1987 to 1988, and President, Bell Canada Enterprises Inc., from 1984 to 1987. He is also a Director of Alberta Natural Gas Ltd, Angus Chemical Inc., Genstar Capital Corporation, New York Life Insurance Company, Oxford Development Group Inc., Petromont Inc. and The Toronto-Dominion Bank and is a member of the Canadian National Advisory Board on Science and Technology.

INFORMATION REGARDING THE BOARD, BOARD COMMITTEES AND OFFICERS

Board of Directors and Executive Committee

During 1989, the Board of Directors held eleven meetings and the Executive Committee held five meetings.

During intervals between meetings of the Board, the Executive Committee, with certain exceptions, has all the powers vested in the Board. This Committee, which is composed of six Directors, has the following members: Donald J. Phillips, chairman, J. Peter Gordon, Walter F. Light, Ian McDougall, George T. Richardson and Richard M. Thomson.

During 1989, each of the Directors of the Company attended at least 75% of the meetings of the Board and Committees of the Board on which such Director served except for Mr. Hantho, who attended 73% of such meetings.

Audit Committee

The Audit Committee, established in 1941, is composed of four Directors, none of whom may be an employee of the Company. This Committee meets with the Company's financial management personnel, its internal auditors and its independent auditors at least three times a year to review and appraise the Company's financial reporting practices and procedures, the adequacy of its system of internal accounting control, the planned scope of examinations by both its internal auditors and its independent auditors and their findings and recommendations, and the non-auditing services performed by the independent auditors. It reviews the Company's financial statements, which appear in the Company's Annual Report, and monitors the results of reviews covering employee compliance with the Company's policies on business conduct, conflicts of interest and other internal control policies. It also recommends to the Board the independent auditors to be proposed to the Shareholders for appointment at the Annual Meeting. This Committee, which held three meetings in 1989, has the following members: Purdy Crawford, chairman, John B. Aird, Charles F. Baird and Robert J. Richardson.

Management Resources and Compensation Committee

The Management Resources and Compensation Committee, established in 1969, is composed of four Directors, none of whom may be an employee of the Company. This Committee advises and consults with the Chairman and makes recommendations to the Board on the remuneration of senior executives of the Company. It makes recommendations to the Board with respect to incentive compensation plans, including the Company's Management Incentive Plan, and administers and makes recommendations for share option grants and incentive awards under the 1984 and 1989 Key Employees Incentive Plans of the Company. The Committee also reviews the management development programs, the succession plans relating to senior management and the performance goals of the major units of the Company

as they relate to incentive plans of each unit. This Committee, which held five meetings in 1989, has the following members: J. Peter Gordon, chairman, Walter F. Light, George T. Richardson and Richard M. Thomson.

Nominating Committee

The Nominating Committee, established in 1979, recommends to the Board nominees for election as Directors. This Committee, which held two meetings in 1989, has the same members as the Executive Committee.

Shareholders who wish to have persons considered by the Nominating Committee for nomination by the Board of Directors at the 1991 Annual Meeting should submit their requests, including biographical data regarding such persons, to the Secretary of the Company.

Pension Committee

The Pension Committee, established in 1974, is composed of four Directors, none of whom may be an employee of the Company. This Committee advises the Board on the financial aspects of the pension programs of the Company and its subsidiaries, including actuarial assumptions, the adequacy of funding and the implementation of sound investment of pension funds. In addition, this Committee recommends to the Board the appointment of trustees and investment advisors or managers. This Committee, which held two meetings in 1989, has the following members: Michel Bélanger, chairman, Judith A. Erola, William F. Glavin and Charles H. Hantho.

Remuneration of Officers

The remuneration paid in respect of 1989 by the Company and its subsidiaries to Officers of the Company, while serving as such, was as follows:

NATURE OF 1989 REMUNERATION

	Salaries	1989 Incentive Compensation (1)	Total (2)
REMUNERATION OF OFFICERS (18 persons)	$3,105,000	$2,336,000	$5,441,000
D. J. Phillips, Chairman, President and Chief Executive Officer	$ 482,000	$ 608,000	$1,090,000
W.R.O. Aitken, I. D. Balchin, W. Curlook and I. McDougall, Executive Vice-Presidents, in the aggregate	$1,049,000	$ 852,000	$1,901,000

(1) Represents cash awards made to Officers of the Company for 1989 under the Management incentive Plan of the Company described in the first paragraph under "Incentive Plans and Other Arrangements with Officers".

(2) Does not include employer contributions to the Company's contributory security reserve plans or non-contributory retirement systems referred to on pages 13 to 15 and does not include certain other cash compensation referred to in the first and fifth complete paragraphs on page 11 and the first two paragraphs on page 12.

Remuneration of Directors

Non-employee Directors of the Company are paid fees for serving on the Board of Directors and various Committees of the Board. Directors who are employees of the Company do not receive Directors' fees. The basic annual fee received by each non-employee Director is $15,000 and the annual fee for serving on a Committee is $3,000. The additional annual fee paid to the chairman of each Committee for serving in that capacity is $2,000, and the attendance fee paid to each non-employee Director for attending each Board meeting and, except as noted in the next paragraph, each Committee meeting, is $750.

Members of the Management Resources and Compensation Committee do not receive an attendance fee for a meeting on the same day on which the Executive Committee meets. Members of the Nominating Committee do not receive any remuneration for serving on that Committee.

Incentive Plans and Other Arrangements with Officers

Under the Company's Management Incentive Plan, which is established on an annual basis, cash bonus awards may be made to Officers and other employees of the Company and its subsidiaries if certain pre-established targets are met for that particular year. These targets, and the amount of any awards which may result, are based on the financial performance of the Company, or the applicable business group, the performance of each unit and the contribution of each individual plan participant. All proposals for awards to be made under the Management Incentive Plan are reviewed by the Management Resources and Compensation Committee and recommended to the Board for approval. Awards under this Plan are considered as part of base salary for the purpose of determining pension benefits.

Non-employee Directors are not eligible to participate in the Company's Management Incentive Plan or the Key Employees Incentive Plans of the Company referred to below.

The 1989 Key Employees Incentive Plan (the "1989 Plan") provides for the issuance of share options, share appreciation rights ("SARs") and other awards of supplementary compensation. The 1989 Plan succeeded the 1984 Key Employees Incentive Plan (the "1984 Plan") and the 1979 Key Employees Incentive Plan (the "1979 Plan").

SARs entitle an optionee, in lieu of exercising an option to purchase Common Shares, to surrender unexercised all or a portion of the related option. Upon such surrender, such optionee will be entitled to an amount equal to the difference between the then market price per share and the exercise price per share specified in the option multiplied by the number of shares covered by the option, or portion thereof, so surrendered. The Company may elect to deliver Common Shares, cash, or a combination of Common Shares and cash, equal in value to such difference.

On February 15, 1989, then current Officers of the Company as a group were granted options and SARs under the 1984 and the 1989 Plans to purchase 130,000 and 267,000 Common Shares, respectively, at the exercise price of U.S. $30.00 per share. The exercise price was the mean between the high and low reported sales prices for the Company's Common Shares, reported as New York Stock Exchange – Composite Transactions, on the date of grant. These options expire on February 16, 1997. Included in the grants were options for 75,000 shares granted to Mr. Phillips, and options for 140,000 shares granted to Messrs. Aitken, Balchin, Curlook and McDougall, as a group. One-half of the options or related SARs became exercisable on August 17, 1989, and the remainder become exercisable on August 17, 1990.

On February 14, 1990, Officers of the Company as a group were granted options and SARs under the 1989 Plan to purchase 135,000 Common Shares at the exercise price of U.S. $23.19 per share. The exercise price was the mean between the high and low reported sales prices for the Company's Common Shares, reported as New York Stock Exchange — Composite Transactions, on the date of grant. These options expire on February 15, 1998. Included in the grants were options for 25,000 shares granted to Mr. Phillips, and options for

45,000 shares granted to Messrs. Aitken, Balchin, Curlook and McDougall, as a group. One-half of the options or related SARs become exercisable on August 16, 1990, and the remainder become exercisable on August 16, 1991.

During 1989, Mr. Phillips and Messrs. Aitken, Balchin, Curlook and McDougall, as a group, exercised previously granted SARs and received an aggregate of $368,000 and $499,000, respectively, in cash and Common Shares (valued at the market price on the date of exercise). In addition, during the same period, Messrs. Aitken, Balchin, Curlook and McDougall, as a group, exercised previously granted options to purchase 3,604 Common Shares having an aggregate net value (market value at time of exercise less exercise price) of $80,000. During 1989 all Officers of the Company, as a group, including the Officers referred to above, exercised previously granted options to purchase 8,629 Common Shares having an aggregate net value of $172,000 and exercised previously granted SARs and received therefor an aggregate of $2,952,000 in cash and Common Shares (valued at the market price on the date of exercise).

During the period from January 1, 1990 through February 15, 1990, Messrs. Aitken, Balchin, Curlook and McDougall, as a group, exercised previously granted options to purchase 9,664 Common Shares having an aggregate net value of $121,000. During the same period, neither Mr. Phillips nor all Officers of the Company, as a group, excluding the Officers referred to above, exercised any options. During the same period no previously granted SARs were exercised.

The 1979 Plan and the 1984 Plan, as well as the 1989 Plan, contain an "antidilution" provision designed to protect optionholders in the event of stock splits or other significant changes in the capital of the Company, such as the recapitalization approved by Shareholders in 1988. The foregoing discussion of option and SAR exercises includes the effect of these provisions.

As of February 15, 1990, the aggregate number of Common Shares subject to all options held by Officers of the Company is 903,318.

Both the 1984 Plan and the 1989 Plan authorize (as did the previous Plans) awards of supplemental compensation out of an incentive fund established by the Committee in respect of each year under the plan. The incentive fund for the year under these Plans is equal, generally, to 1% of the sum of the Company's net earnings and provisions for income and mining taxes for such year together with the amount, if any, by which the aggregate incentive funds established for all prior years under each Plan exceeds the aggregate amount of supplemental compensation charged against such incentive funds. On February 15, 1989, supplemental awards of Common Shares and cash (in an amount sufficient to cover the tax liability of the recipients in respect of their receipt of the awards) were made to Officers of the Company. An aggregate of 19,530 Common Shares and $588,000 was awarded to all Officers of the Company as a group. Of this amount, 5,880 Common Shares and $176,000 were awarded to Mr. Phillips and 7,800 Common Shares and $234,000 were awarded to Messrs. Aitken, Balchin, Curlook and McDougall, as a group.

On February 14, 1990, supplemental awards of Common Shares and cash (in an amount sufficient to cover the tax liability of the recipients in respect of their receipt of the awards) were made to Officers of the Company. An aggregate of 47,269 Common Shares and $1,096,000 was awarded to all Officers of the Company as a group. Of this amount, 13,584 Common Shares and $315,000 were awarded to Mr. Phillips and 18,114 Common Shares and $420,000 were awarded to Messrs. Aitken, Balchin, Curlook and McDougall, as a group.

The aggregate amount of compensation to Officers of the Company in the form of personal benefits totalled less than 1% of the aggregate amount of remuneration paid to such Officers of the Company in 1989 as shown in the table on page 9.

In order to encourage them to remain in the Company's service, each of Messrs. Phillips, Aitken, Balchin, Curlook and McDougall and two other Officers will be entitled, in the event of discharge (except for cause) or resignation under circumstances making his resignation not wholly voluntary, to continue to receive his total compensation (including participation in certain medical, insurance and similar plans) for a limited period not exceeding 36 months, to receive payment of any outstanding incentive compensation awards and to exercise any share options and related SARs held at termination of employment. Also, in the event of termination of employment on the above-mentioned basis within two years following a change of control of the Company (as defined in the agreements), most of such Officers will be entitled to reasonable legal costs, should any such costs be incurred in connection with such agreements, as well as limited job relocation counselling services. The rights outlined in this paragraph are in lieu of any rights which such individual would have had at common law and are in addition to rights which he may have upon termination of employment pursuant to other benefit plans of the Company.

The Company has similar agreements with nine other Officers. Under these agreements, such Officers will be entitled, in the event of (i) discharge (except for cause, disability or retirement) within two years following a change of control of the Company (as defined in such agreements), or (ii) resignation for good reason (as defined in such agreements) within two years following a change of control, to receive a compensation package substantially the same as that referred to in the preceding paragraph. Such rights are in lieu of any rights which such Officers would have had at common law and are in addition to rights which they may have under other benefit plans upon termination of employment.

Employee Share Award Plan

The Company's 1988 Employee Share Award Plan (the "1988 Share Award Plan") provides for the award of Common Shares to substantially all full-time employees of the Company and its wholly-owned subsidiaries who had at least one full year of service at year-end 1988 and 1989. Each award under the 1988 Share Award Plan consists of one Common Share for each full year of service plus 10 Common Shares. The first award of shares was made on February 15, 1989 based upon employment and years of service at the end of 1988 and the second award was made on February 15, 1990 based upon employment and years of service at the end of 1989. The 1988 Share Award Plan provided for a reduced award in 1990

in the event that the number of an employee's Common Shares held at year-end 1989 was less than the number of Common Shares awarded to that employee in 1989. An aggregate of 890,901 Common Shares were awarded for 1989 and 1990 together. The number of shares awarded under the 1988 Share Award Plan to Officers of the Company in 1989 and 1990, respectively, is as follows: all Officers as a group, 554 and 570 shares; Mr. Phillips, 42 and 43 shares; and Messrs. Aitken, Balchin, Curlook and McDougall, as a group, 156 and 160 shares.

In December 1989, the Board of Directors approved the extension of the 1988 Share Award Plan into 1991 (the "1990 Share Award Plan"). The 1990 Share Award Plan provides that Common Shares will be awarded in 1991 to substantially all full-time employees of the Company and its wholly-owned subsidiaries who had at least one full year of service as of December 31, 1990 provided that (i) the Company reports a return on common shareholders' equity of 15 per cent or greater for 1990 after accounting for the 1991 awards, and (ii) to be eligible, each employee, at December 31, 1990, must own shares equal to at least 80 per cent of the total aggregate shares awarded to such employee under the 1988 Share Award Plan. The number of Common Shares to be awarded to each eligible employee under the 1990 Share Award Plan will be the greater of (i) ten shares, or (ii) a number of shares equal to the number of full years of continuous service with the Company. The number of Common Shares which could be awarded in 1991 under the 1990 Share Award Plan to Officers of the Company is as follows: all Officers as a group, 666 shares; Mr. Phillips, 34 shares, and Messrs. Aitken, Balchin, Curlook and McDougall, as a group, 124 shares.

Security Reserve Plans

The Company provides a system of defined contribution savings plans, which it refers to as "security reserve plans", for employees located at its major operations in Canada and the United States. These plans are open to substantially all salaried employees, including Officers, and certain other employees. The plans require contributions by the employee and the employer. Under the program of contributions applicable to the majority of eligible employees, including Officers, participating employees may elect to contribute from 1% to 6% of base pay. The employer matches a given percentage of such contributions depending upon the age and years of service of the employee. Employer contributions for participating employees increase gradually from a matching level of 50% for employees under age 40 who have less than 15 years of service to a matching level of 100% for employees aged 62 or over or who have 37 or more years of service. In addition, participating employees may contribute amounts over and above 6% of base pay up to specified limits. The employer does not make matching contributions with respect to such additional contributions.

Non-employee Directors are not eligible to participate in the plans. The plans' funds, which are invested by professional investment managers and held by independent trustees, become distributable as to vested amounts upon retirement, death or other termination of employment, or upon discontinuance of the particular plan. Subject to various conditions, a participating employee may also make withdrawals during employment.

Retirement Plans

Officers of the Company participate in the Company's non-contributory retirement plans which provide retirement income and a 50% surviving spouse's pension based on years of service and the employee's average annual earnings (salary and cash bonus awards under the Management Incentive Plan) for the highest paid five years of the last ten years of service. A number of other factors may influence pension benefits payable under such retirement plans, including age at retirement and whether an employee elects to receive an optional form of payment, as described more fully below.

U.S. and Canadian legislation place certain limits on the amount of pensions which may be paid out of tax-qualified plans, such as the Company's regular retirement plans. The Company has supplemental executive retirement agreements with Officers which provide for the payment of supplemental benefits equal to that portion of pension benefits earned under the terms of the Company's regular retirement plans in excess of these statutory limits, which may be payable in a single payment equal to the actuarial value of the supplemental benefits otherwise payable, and also provide that the total pension benefit payable to an Officer at normal retirement age with at least 20 years of service may not be less than 50% or more than 75% of such Officer's final average annual compensation. The amount of supplemental benefits which exceeds the statutory limits referred to above will be paid out of the general operating funds of the Company.

The table below, which reflects a portion of governmental benefits received by a recipient, illustrates the amount of the annual pension for an employee retiring at age 65 in 1990 who has not elected an optional form of payment to increase the normal 50% surviving spouse's pension under the relevant tax-qualified plan and supplemental executive retirement agreement. Such elections would reduce the annual pension payable to the employee.

Average Final Compensation in Highest Five of Last Ten Years of Service	Approximate Maximum Annual Pension — Years of Service			
	25	35	45	55
$100,000	33,700	47,400	62,500	77,500
150,000	52,500	73,700	96,200	118,800
200,000	71,200	99,900	130,000	160,000
250,000	90,000	126,200	163,700	201,300
300,000	108,700	152,400	197,500	242,500
350,000	127,500	178,700	231,200	283,800
400,000	146,200	204,900	265,000	325,000
450,000	165,000	231,200	298,700	366,300
500,000	183,700	258,700	333,700	408,700
550,000	202,500	285,000	367,500	450,000
600,000	221,200	311,200	401,200	491,200
650,000	240,000	337,500	435,000	532,500

At age 65 Messrs. Phillips, Aitken, Balchin, Curlook and McDougall will have 38, 27, 40, 42 and 48 years of service, respectively.

The aggregate cost to the Company in 1989 of all pension benefits proposed to be paid under the Company's regular retirement plans and the above-referenced supplemental executive retirement agreements to all of the Officers of the Company as a group upon retirement at age 65 is estimated to be $640,000.

A standard group plan provides eligible employees of the Company, including Officers, life insurance during retirement of 25% of annual final salary. The above-referenced supplemental executive retirement agreements provide supplemental life insurance ("Supplemental Insurance") of 75% of final annual salary, for a total of 100%. This 100% amount applies from the earlier of age 65 or the date of any involuntary termination, and continues to age 70. At age 70, the Supplemental Insurance is progressively reduced in annual amounts to age 74 to 25% of final annual salary, at which time the combined Supplemental Insurance and standard life insurance becomes and remains at 50% of final annual salary.

Directors and Officers Liability Insurance

The Directors and Officers of the Company as a group are insured against certain liabilities pursuant to directors and officers liability insurance policies obtained by the Company. The general effect of these policies is that if during the policy period any claims are made against Directors or Officers of the Company for a wrongful act (as defined) while acting in their capacities as Directors or Officers, the insurers will pay for loss (as defined) which the Directors or Officers shall become obligated to pay up to a limit of $30,000,000 in a policy year. Premiums totalling $631,000 for such insurance in respect of 1989 were paid by the Company.

APPOINTMENT OF AUDITORS

Price Waterhouse has served as Auditors of the Company since the Company's incorporation in 1916.

The persons named in the accompanying form of proxy intend to vote the proxy in favour of the appointment of Price Waterhouse to the office of Auditors of the Company for the term expiring with the Annual Meeting in 1991 at a remuneration to be approved by the Board of Directors, unless the Shareholder signing such form of proxy specifies otherwise.

It is intended that Price Waterhouse will make an audit of the scope customarily made by it on behalf of the Company, as indicated in its report to Shareholders dated February 14, 1990 set forth on page 46 of the 1989 Annual Report of the Company.

Representatives of Price Waterhouse will attend the meeting and will have the opportunity to make a statement if they desire to do so and will respond to any appropriate questions.

SHAREHOLDER PROPOSAL

A Shareholder of the Company has submitted a proposal, pursuant to the Canada Business Corporations Act, to have Shareholders, by means of a Shareholder vote, enact a by-law of the Company respecting confidential voting.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THIS PROPOSAL ON THE BASIS THAT THE PROPOSAL IS NOT IN THE BEST INTERESTS OF THE COMPANY AND ITS SHAREHOLDERS.

The reasons for the Board's recommendation are summarized as follows:

It is the view of your Board of Directors that the confidential voting by-law contained in the Proposal is unnecessary and would be counter-productive because:

- it is an example of change for the sake of change, since no actual problem has been cited which requires remedy,
- it would require the Company to discard tried and proven proxy procedures, and would result in additional and unwarranted administrative burdens, and
- it would hinder the Company's ongoing efforts to improve shareholder communications, a matter of vital importance to your Board of Directors.

The simple fact is that the Company has in the past and continues to respect and protect the integrity of the shareholder voting process. Your Company has never attempted to coerce its shareholders and, as conceded by the proponent of the Proposal, it is not suggested that the Company or its management has ever acted improperly with respect to proxy procedures. The Company is subject to and is in full compliance with the relevant proxy solicitation rules in both Canada and the United States.

The Company regularly reviews its voting process to determine if any changes would be appropriate. This includes a review of policies and practices followed by other corporations which in fact indicates that the proponent's Proposal as a by-law is considerably more restrictive than the confidential voting policies of all of the corporations cited in the proponent's supporting statement below.

Accordingly, in the view of your Board, the Proposal does not address a real problem affecting your Company but merely promotes the proponent's private view respecting an issue of corporate governance.

Finally, your Board of Directors rejects the premise that the Company could coerce shareholders even if it wanted to do so, which it emphatically does not. Institutional shareholders (such as provincial, state, municipal and private pension funds, banks, trust companies, insurance companies and other financial intermediaries) are entirely independent of the Company's influence and are subject to their own investment guidelines and fiduciary responsibilities.

The Shareholder Proposal is as follows:

"WHEREAS a confidential voting procedure would enhance shareholder democracy and encourage shareholder participation in the Company's affairs,

AND WHEREAS a shareholder who submits a proposal for inclusion in the Corporation's management proxy circular is invariably at a disadvantage, if management opposes the proposal, because

(a) management alone has an opportunity to review proxies submitted by shareholders and to attempt to persuade shareholders who vote on a proposal to change their vote, and

(b) a shareholder has no means of monitoring any such resolicitation activities by management, and cannot in any event respond to a resolicitation prior to the meeting, unless the shareholder has filed a dissident proxy circular with securities regulatory authorities,

AND WHEREAS a confidential voting procedure would help to level the playing field with respect to proposals submitted by shareholders,

NOW THEREFORE, IT IS RESOLVED THAT the following bylaw is enacted as a bylaw of the Company:

1. The vote of a shareholder of the Company shall not be revealed to any director or officer of the Company or to any other person, unless the shareholder expressly so requests or the law so requires.
2. Subject to paragraph 1 of this bylaw, only the results of a tabulation of votes cast in connection with a meeting of shareholders shall be revealed to any director or officer of the Company or to any other person.
3. The Board of Directors shall adopt procedures to implement the provisions of this bylaw, which procedures are reasonably designed to ensure that all proxies sent to the Company and all votes cast by ballot in connection with a meeting of its shareholders are kept confidential, and which procedures shall provide for the retention of independent persons to receive proxies and to tabulate and inspect such ballots and proxies.
4. The provisions of paragraphs 1 to 3, inclusive, of this bylaw shall not apply to a meeting of shareholders of the Company in connection with which a dissident proxy circular, requesting that proxies be sent to a person who files the dissident proxy circular or who acts on behalf of the dissident, is filed with securities regulatory authorities in Canada and the United States and with the Director under the Canada Business Corporations Act.

5. The requirements of this bylaw and the procedures adopted by the Board of Directors under paragraph 3 shall be summarized in any management proxy circular sent to shareholders in connection with a meeting of shareholders of the Company.''

The Company has also received the following statement in support of the Proposal from the proponent:

''The accompanying Resolution will enact a bylaw requiring confidential voting in connection with meetings of the Company, unless there is a proxy contest with respect to the meeting.

Confidential voting is basic to any democratic process. It protects the privacy of shareholders and encourages their participation in corporate proceedings without fear of reprisal.

Confidential voting also helps to level the playing field between shareholders and management. Confidential treatment of proxies ensures that management may not engage in resolicitation of shareholders who vote against a management initiative. It also protects shareholders against the possibility of perceived pressures with respect to their vote.

Confidential voting procedures are practicable. They have been adopted voluntarily by a number of major corporations in Canada and the United States, such as Alcoa, AT&T, CIBC, Exxon, General Electric, General Motors, IBM, IT&T, Varity Corporation, and Xerox. Confidential voting will enhance shareholder democracy in our Company without imposing unfair limitations on management or undue burdens on the Company.

It is desirable that a confidential voting procedure form part of our Company's constitution. Should the board of directors voluntarily adopt reasonable procedures in this or some other manner, Allenvest is prepared to withdraw its proposal.

Allenvest Group Limited
8 King Street East
Suite 700
Toronto, Ontario
M5C 1B5''.

The affirmative vote of a majority of the shares voted by Shareholders present in person or represented by proxy will be required for approval of the resolution. The persons named in the accompanying form of proxy intend to vote against the Proposal unless the shareholder signing such form of proxy specifies otherwise.

THE BOARD UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THE SHAREHOLDER PROPOSAL.

PRINCIPAL SHAREHOLDERS OF THE COMPANY

The following table sets forth certain information concerning persons which to the knowledge of the Company have beneficial ownership of more than 5% of all outstanding shares of the Company.

Name and Address	Class	Shares Owned	Percent of Outstanding Shares
Fayez Sarofim & Co. (1) Two Houston Center Houston, Texas 77010	Common	9,006,067	8.4%
Forstmann/Leff Associates, Inc. (2) 55 East 52nd Street New York, New York 10153	Common	8,282,700	7.7%

(1) A United States investment manager. The Company has been advised that as of February 1, 1990, the holder had sole voting power over nil shares; shared voting power over 6,113,600 shares; sole investment power over nil shares; and shared investment power over 9,006,067 shares.

(2) A United States investment manager. The Company has been advised that as of February 1, 1990, the holder had sole voting power over 4,434,100 shares; shared voting power over 1,262,600 shares; sole investment power over 6,436,500 shares; and shared investment power over 1,846,200 shares.

ANY OTHER MATTERS WHICH MAY COME BEFORE THE MEETING

The accompanying form of proxy will confer discretionary authority upon the persons named therein with respect to any amendments to the matters set forth in the Notice of Meeting and with respect to any other matters that may properly come before the meeting.

The Board of Directors is not aware that any matters are to be presented for action at the meeting other than those specifically referred to in the Notice of Meeting. However, if any other matters properly come before the meeting, it is the intention of the persons named in the accompanying form of proxy to vote on such matters in accordance with their judgment.

On any ballot that may be called for at the meeting, all shares in respect of which the persons named in the accompanying form of proxy have been appointed to act will be voted or withheld from voting in accordance with the specification of the Shareholder signing the proxy. If no such specification is made, then the shares will be voted as stated above.

The Company will bear the cost of solicitation of proxies. Solicitation will be by mail, possibly supplemented by telephone or other personal contact by regular employees of the Company. In addition, the Company will retain Georgeson & Company Inc., Wall Street Plaza, New York, New York 10005, to aid in the solicitation of proxies from U.S. individuals and institutional holders at a fee of approximately $15,000, plus out-of-pocket expenses, and The

Proxy Solicitation Company Ltd., 80 Richmond St. W., Toronto, Ontario M5H 2A4, to aid in the solicitation of proxies from Canadian individuals and institutional holders at a fee of approximately $6,000, plus out-of-pocket expenses.

1991 ANNUAL MEETING OF SHAREHOLDERS

Under the Canada Business Corporations Act, the corporations law governing the Company, Shareholder proposals must be received by January 17, 1991 to be considered for inclusion in the Proxy Circular and Statement and form of proxy for the 1991 Annual Meeting of Shareholders, which is expected to be held on April 17, 1991. For purposes of compliance with regulations under the United States Securities Exchange Act of 1934, such Shareholder proposals would have to be received by October 18, 1990.

February 15, 1990

The Board of Directors has approved in substance the contents of this Proxy Circular and Statement and also its mailing to Shareholders.

Scott M. Hand

Scott M. Hand
Vice-President, General Counsel & Secretary